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THESIS

THE DEFENSE ENTERPRISE PROGRAM:

A MANAGERIAL ASSESSMENT

by

Mark Robert Radice

June, 1992

Thesis Advisor: L . R. Jones

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The DoD acquisition community frequently reports that micromanagement and overregulation reduce acquisition efficiency. The Defense Enterprise Program (DEP) was an initiative approved by Congress in response to Packard Commission recommendations to improve the acquisition process. The DEP initiative allowed DoD to experimentally reduce regulatory requirements, streamline the acquisition management structure and provide fiscal stability to DoD programs. However, the initiative failed to provide significant benefits for the designated programs. The causes of the DEP failure fell into these three broad categories; 1) Managerial failures in implementation 2) Failure to address organizational resistance to reduced oversight and 3) Political dynamics of DoD acquisition reform. This study analyzes the difference between congressional intent and DoD execution of the DEP as well as the impediments to effective DEP implementation. It also examines the characteristics of the DoD acquisition organization and the relationships between DoD and Congress while assessing the impact on the ability to reform DoD acquisition. Lessons learned from the DEP failure may provide insight on the political dynamics of organizational change and enhance the opportunity for successful implementation of future Department of Defense reforms.

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by

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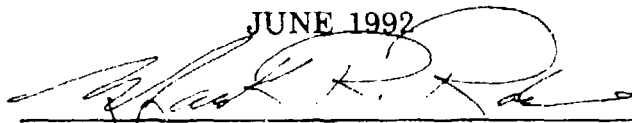of the requirements for the degree of

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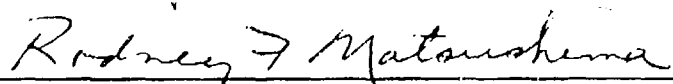from the
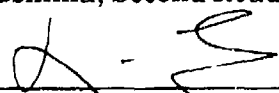
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ABSTRACT

The DoD acquisition community frequently reports that micromanagement and overregulation reduce acquisition efficiency. The Defense Enterprise Program (DEP) was an initiative approved by Congress in response to Packard Commission recommendations to improve the acquisition process. The DEP initiative allowed DoD to experimentally reduce regulatory requirements, streamline the acquisition management structure and provide fiscal stability to DoD programs. However, the initiative failed to provide significant benefits for the designated programs. The causes of the DEP failure fell into these three broad categories; 1) Managerial failures in implementation 2) Failure to address organizational resistance to reduced oversight and 3) Political dynamics of DoD acquisition reform. This study analyzes the difference between congressional intent and DoD execution of the DEP as well as the impediments to effective DEP implementation. It also examines the characteristics of the DoD acquisition organization and the relationships between DoD and Congress while assessing the impact on the ability to reform DoD acquisition. Lessons learned from the DEP failure may provide insight on the political dynamics of organizational change and enhance the opportunity for successful implementation of future Department of Defense reforms.

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I. INTRODUCTION

A. OVERVIEW

This thesis examines one element of acquisition reform related to the complex, ever-changing relationship between Congress and the Department of Defense (DoD). Members of Congress and DoD are charged with oversight of what is oftentimes perceived as an inefficient, acquisition process. The following characterization of DoD acquisition is offered by Augustine and Adelman in The Defense Revolution:

> The Department of Defense spends about $150 billion each year in 15 million separate contract actions, or about two per second. These actions are carried out by more than 150,000 government acquisition personnel and another 300,000 supporting government personnel using 30,000 pages of regulations issued by 79 different offices. The process is overseen by 29 congressional committees with 55 subcommittees and 28,000 staff members. In one recent year, the Pentagon was required to respond to 120,000 written requests for information from Congress plus 600,000 telephone inquiries from Capitol Hill, all while supplying 1,300 witnesses who gave 1,500 hours of testimony at 450 hearings-much of it relating to the procurement process. This activity is monitored in minute detail by 26,000 auditors and assisted by the Washington Post. [Ref. 1:p. 129]

Reformers continually modify the acquisition process with the intent of improving its fiscal and managerial efficiency. In 1985, reformers contended that because of past reform efforts, the process had become "overburdened with unnecessary management layers, excessive delays in program decision approval, inordinate redirection in programs and cumbersome and often inconsistent oversight and regulation." [Ref. 2:p. 59] The reform agenda is not

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new. Reformers in 1985 believed that acquisition streamlining was a solution to correct some inefficiency.

The Defense Enterprise Program (DEP) was one reform created in 1986 by Congress in response to recommendations made by the Packard Commission. Congress subsequently authorized the Defense Enterprise Program in the 1987 Defense Authorization Act as a streamlining experiment for selected DoD acquisition programs. Members of Congress hoped to use the benefits obtained by the DEPs to justify implementation of the streamlir .w: concept in acquisition programs DoD-wide. [Ref. 3:p. 257] The DEP was fashioned to make the authority and accountability of DoD program managers comparable to their civilian equivalents by:

1. reducing unnecessary regulatory and reporting requirements

2. utilizing a streamlined management structure to reduce excessive oversight

3. utilizing milestone-to-milestone funding to improve fiscal stability and improve managerial and fiscal efficiency

The initiative, although hailed by Congress and those in the acquisition field, did not produce significant regulatory or reporting relief or improve managerial or fiscal efficiency for most of the DEPs. Some program managers actually reported an increase in regulation and micromanagement although reforms similar to the DEP have been instituted to combat them. [Ref. 4]

DEPs have sustained the interest of Congress. The Senate Armed Services Committee (SASC) recently addressed the DEP in its report on the 1992-93

National Defense Authorization Act. It criticized DoD for its unwillingness to implement the initiative and lauded the potential merit of DEP concepts. The SASC promised to continue giving the support necessary to achieve effective implementation of the DEP in DoD programs. [Ref. 5]

As defense budgets decline drastically, acquisition fiscal and managerial efficiency must be increased to squeeze the most from the procurement dollars available. The deleterious effects of over-regulation and micromanagement infringe on acquisition efficiency and the efficient utilization of the limited resources expected in the future.

The fate of the DEP provides an example of the complex political, organizational and budgetary interrelationships within DoD and between Congress and DoD officials. This thesis examines the dynamics of DEP implementation and execution to determine the reasons for its lackluster results. Analysis of these impediments provides an understanding of some pitfalls that may be encountered when implementing a reform within DoD. It also provides an additional characterization of the relationship between DoD acquisition policy-makers and Congress. This thesis attempts to develop insight on the difficulty of implementing reforms in DoD for officials within the acquisition and budget hierarchy who may be directed by Congress to implement this or similar reforms in the future.

B. RESEARCH QUESTIONS

The primary research question of this thesis is:

Why hasn't implementation of the Defense Enterprise Program reduced overregulation and micromanagement?

The following secondary research questions are also relevant to this investigation:

Is a congressional "hands off" or management-by-exception program possible for DoD?

Can the DEP help to accomplish staff reductions by taking advantage of reduced regulatory and reporting requirements?

Is it feasible to expect the DEP to provide relief from over-regulation and unnecessary reporting in the future?

How can DoD eff.ctively accomplish implementation if Congress mandates utilization of DEP concepts in the future?

C. SCOPE OF STUDY, LIMITATIONS AND ASSUMPTIONS

This thesis examines historical acquisition reforms as background and then analyzes the effects of the regulatory and oversight requirements imposed by Congress and the military organization on the program management office. Data from the program manager point of view is analyzed to determine if any reduction in oversight or increase in authority or accountability occurred while operating under the authority of the DEP initiative. The evolution, implementation and outcome of the DEP is compared to congressional goals for the initiative to offer insight into the fiscal, regulatory and oversight

relationships between Congress and DoD. Conclusions are drawn from analysis of the implementation, execution and outcome of the DEP.

The thesis does not investigate the effects of military requirements (MILSPEC/MILSTD) or FAR/DFAR regulations on managerial efficiency. Research is confined to the management of programs, after the decision to proceed with acquisition has been made.

It is assumed that the reader has a basic understanding of the DoD acquisition process, program management functions, DoD terminology and the legislative and budget processes.

D. RESEARCH METHODOLOGY

Research was conducted through a combination of comprehensive literature reviews and field interviews. The Naval Postgraduate School library maintains DoD instructions/guidance, GAO reports, Congressional Authorization Acts/Reports and other publications which was used to accumulate the basic research of the thesis. An exhaustive search of the Defense Logistics Studies Information Exchange (DLSIE) service and Defense Systems Management College studies provided additional data for analysis.

Defense and trade journal articles, in addition to personal interviews, were used to compare the declared goals of the initiative to perceptions and outcomes of the DEP. Interviews with program management staff, personnel in the military acquisition hierarchy and congressional staff members provided a substantial portion of the data for this thesis.

E. THESIS ORGANIZATION

This thesis is divided into six chapters. Chapter I introduces the thesis subject, sets forth the thesis questions and scope and describes the methodology of researching the thesis.

Chapter II provides a general background for DoD acquisition. The themes of the DEP are traced through each of the major reform efforts of the last decade. The chapter also explores the acquisition oversight role of Congress. Finally, the chapter describes the acquisition climate within DoD to underscore the need for creation of a reform with characteristics like the DEP.

Chapter III details the genesis of the DEP. The intent of Congress and original and enabling DEP legislation are analyzed to provide insight into the differences between the initial concept, congressional intent and final legislated form. A brief description of the initial DoD response highlights the ineffectiveness of the DEP.

Chapter IV analyzes the causes of the failure of the DEP. It looks into four broad causal areas that hindered the implementation and execution of the DEP. Events and circumstances that affected implementation each of the three DEP pillars are presented to demonstrate the difficulty encountered by the DEP.

Chapter V presents facts and analysis that support the question of whether the DEP is still a viable tool for DoD to use to improve the efficiency of the

acquisition process. Factors that support and threaten this viability lead to a conclusion concerning DEP revitalization.

Chapter VI draws conclusions from the analysis presented in the research. The answers to the research questions posed in chapter I and, in conclusion, presents pitfalls to which any reform may succumb. Areas for additional research are also included in the final chapter.

II. BACKGROUND

> It is increasingly evident that barriers to improving the
> acquisition process derive, not from a lack of ideas, but
> from the difficulties encountered by senior government
> managers (in Congress as well as in the Defense
> Department) in identifying and changing
> counterproductive government and industry incentives.

> -J.R. Fox
> The Defense Management Challenge

A. INTRODUCTION

The need for regulatory and reporting reform has existed since DoD

formalized its acquisition procedures more than 30 years ago. The importance

of reform increased during the period of unconstrained, bureaucratic growth

which commenced in the early 1960's and continued with some lapses through

the mid-1980's. Numerous studies and reform efforts were commissioned to

analyze and recommend changes in the acquisition process to correct specific

problems. These recommendations frequently took the form of legislative,

regulatory or other policy proposals.

Figure 1 depicts the numerous studies and commissions that have analyzed

defense acquisition since WWII. In the majority of these efforts, regulatory

and reporting reform and fiscal instability received specific emphasis.

Identification of problems with defense acquisition appears to have reached

a zenith in the mid 1980's. Widely-acknowledged acquisition inefficiencies

were not attributable to single events or occurrences. It became generally

accepted from the critics' perspective that the acquisition process had eroded

and had become inflexible and inefficient as a result of years of tinkering and

"guidance" (additional regulatory or reporting requirements) by OSD, the

military departments, Congress and the Executive branch.
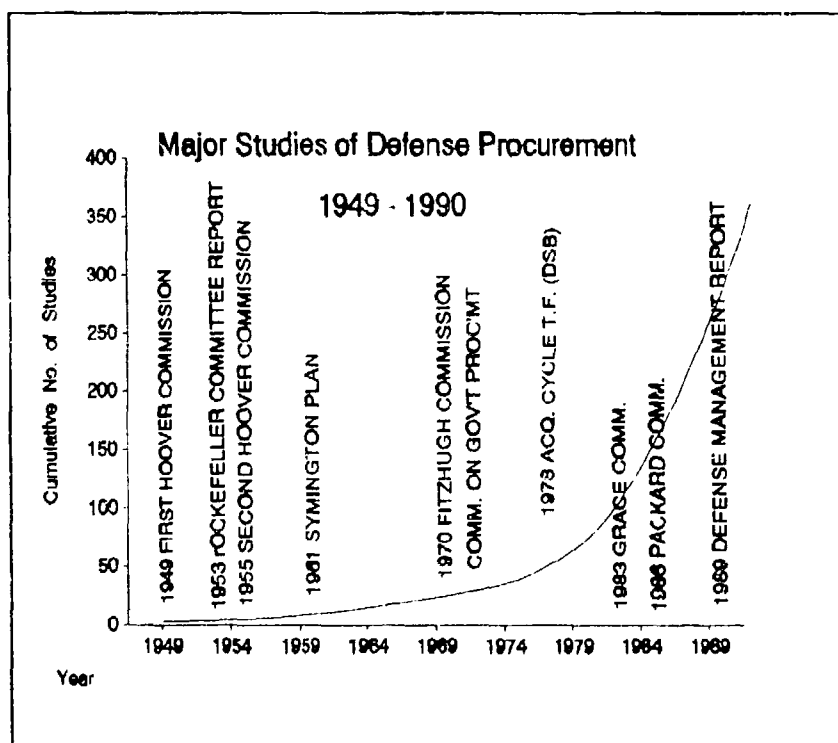
Figure 1

SOURCE: [Ref. 27:p. 125]

In 1988, General Edward Hirsh and Dr. Fred Waelchli offered this

characterization of the reasons for and symptoms of this tinkering:

> The defense acc i ition system does its work--millions of transactions that
> consume billions of the taxpayers' dollars every year--in the intense light of
> public scrutiny. This is as it should be. But this scrutiny (well-intentioned
> or otherwise) is seldom performed at the level of strategic goals and

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objectives, nor is it focused on systemic inadequacies or flaws in the process itself. Too often, the oversight of critical review is triggered by some jolting event: an actual or perceived anomaly or an instance of waste, fraud or abuse; and the analysis is conducted at the level of the visible symptoms. The resulting actions are almost always quick-fix solutions, designed to repair the most recent specific defect. Even those solutions developed more deliberatively rarely consider the total national defense picture. [Ref. 6:p. 65]

A review of 1) major reform efforts that occurred during the 1980's 2) the influence of Congress over the acquisition process and 3) the general climate of acquisition demonstrates that past reform efforts generally were not very successful in improving the managerial efficiency of DoD acquisition programs. This absence of success supported the rationale for creation of the Defense Enterprise Program.

B. REGULATORY AND REPORTING REFORMS OVER THE LAST DECADE

The internal effects of a mutable policy are calamitous. It will be of little avail. . . if the laws (are) so voluminous that they cannot be read, or so incoherent that they cannot be understood: if they (are) . . . revised before they are promulgated, or undergo such incessant changes that no man who knows what the law is today can guess what it will be tomorrow.

-The Founding Fathers
[Ref. 7:p. 151]

Headline-hungry news reporters have been quick to recount the errors of defense acquisition. DoD awards nearly 60,000 contracts every day. If only one, one-hundredth of one percent (.0001) of these provide the sensationalistic material for which the press clamors, they would still have six "scandals" per day to report. On many occasions, these errors are discovered and disclosed

by the offending firms or DoD auditors. In the majority of cases, criminal intent is absent. Rather, confusing accounting rules or other complexities are often to blame. [Ref. 8:p. 31]

1. Carlucci Initiatives

In the early 1980's, President Ronald Reagan, promised to rebuild the armed forces and the civilian infrastructure to support them. To further this end, his Secretary of Defense (SECDEF), Casper Weinberger, and Deputy Secretary of Defense (DEPSECDEF), Frank Carlucci, embarked on a vigorous campaign to improve the efficiency of the defense acquisition process. They sought to change the acquisition strategies of previous Secretaries of Defense, that relied on centralized acquisition management by implementing policies that exploited what they called "controlled-decentralization". They were attempting to modify DoD culture by holding program managers accountable for managing the broad policy decisions made by OSD without excessive top-down oversight. [Ref. 8:p. 47]

DEPSECDEF Carlucci chartered five working groups in 1981, to review the entire acquisition process and recommend changes. Their review focused on providing practical, long and short term solutions. They strived to include suggestions from the military departments as well as industry.

In April 1981, the groups published their results--31 directives broadly titled "The Defense Acquisition Improvement Program" (AIP). DEPSECDEF Carlucci later added another concept to the plan which generally became

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known as the Carlucci Initiatives. Five separate initiatives attempted to provide program managers with regulatory and/or reporting relief. Appendix A provides a list of all 32 initiatives.

Two of the thirty-two initiatives specifically involved reducing or eliminating excessive regulation. They were: 1) Governmental Legislation Related to Acquisition and 2) Reduce the Number of DoD Directives (numbers 13 and 14 respectively). The core concept of these initiatives was the widely-believed and historically-proven managerial philosophy that overregulation thwarts managerial efficiency (which increases the cost to the government).

a. Initiative number 13 entitled "Governmental Legislation Related to Acquisition" requested government agencies to refrain from imposing laws, language and/or policy that unnecessarily burdened the acquisition or contracting process. DEPSECDEF Carlucci believed that "we badly need legislative relief from a multiplicity of laws that impede our ability to follow sound business practices." [Ref. 9:p. 7]

b. Initiative number 14 entitled "Reduce the Number of DoD Directives" was aimed at OSD and the military department proliferation of acquisition regulations. It called for a cost-benefit analysis of the existing rules and regulations to determine which were essential and which were non value-added (and therefore, unnecessary). This initiative also promised responsible, cost-beneficial regulations in the future. New procedures would be

implemented that required the DAE to be the sole issuer of all future acquisition related directives to ensure their merit exceeded their "cost".

DEPSECDEF Carlucci's call for a return to sound business practices indicated his belief that the system had lost its managerial flexibility and efficiency. In light of the above recommendations, DEPSECDEF Carlucci directed a bottom-up review of existing regulations and sought to impose an additional hurdle in the regulatory-approval process to discourage implementation of future regulatory restrictions. [Ref. 9:p. 8]

It is apparent that DEPSECDEF Carlucci's working groups found an overregulated and overlegislated system. But, they also found that acquisition procedures did not vaguely resemble those of the private sector. Three initiatives, number 1 entitled "Management Principles", number 10 entitled "Reduce the Administration Cost and Time to Procure Items" and number 17 called "Decrease DSARC Briefing and Data Requirements", dealt with reporting and/or oversight and sought to model the DoD process after private-sector practices.

c. Initiative number 1 focused primarily on providing the lower tiers of acquisition management with appropriate levels of responsibility, authority and accountability, modeling the defense acquisition process after the private sector as much as possible. In a 1981 article published in Program Manager, Mr Carlucci reported that he was ". . . convinced that the free enterprise system operates better and more efficiently with a minimum of micro-

management from us." [Ref. 9:p. 5] His convictions reappeared five years later as the conceptual basis of the DEP.

d. Initiatives numbers 10 and 17 are also modeled after private-sector management practices. They represent attempts to streamline the acquisition process by requesting a "validity scrub" of all paperwork, data requirements and reviews dealing with oversight. These concepts are also conspicuously present in the DEP implementing guidance.

The next DEPSECDEF, Mr Paul Thayer, was entrusted with continued implementation of the AIP. While reporting on the progress of the AIP in 1983, he consolidated Carlucci's 32 initiatives into six major groups. He deliberately included only 12 of the original 32 initiatives, deciding to concentrate his efforts and support on those few rather than diffuse his support on all 32. [Ref. 10:p. 2] This strategy unfortunately shifted the focus away from regulatory and reporting reform by excluding the five initiatives described above. This was done because DEPSECDEF Thayer considered regulatory and reporting reforms to be proceeding "on-track". [Ref. 10:p. 2]

A 1986 GAO survey of the status of the Carlucci Initiatives provided results which contradicted DEPSECDEF Thayer's belief. The GAO report announced that more than half of the 54 "seasoned" program managers that GAO interviewed, experienced little or no regulatory or reporting relief as a result of the Carlucci Initiatives. The GAO report echoed program manager beliefs that senior-level commitment to reform initiatives had not been

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translated into tangible results at the program manager level. The GAO

offered the conclusion that DoD had, once again, ". . . not carried through with

its action plans on most of the Carlucci Initiatives . . ." and was ". . . not

monitoring actions to ensure that results were being achieved." [Ref. 11:pp. 12-

14]

2. Grace Commission

The President's Private Sector Survey on Cost Control (the Grace

Commission) was the next major reform attempt of the 1980's. It was

designed to increase the efficiency of the entire government by identifying

inefficient practices and assigning estimated cost savings to its

recommendations. In December 1983, the Grace Commission reported 2,478

recommendations to eliminate waste which, if implemented, would save $12

billion over 3 years. [Ref. 12:p. 12] Defense acquisition regulatory and

reporting practices received specific mention in two Grace Commission

recommendations.

a. Issue--OSD 17 "REGULATORY CONSTRAINTS" - This

recommendation included a call for a single, comprehensive volume of

acquisition regulations. Generally, Commission recommendations under this

initiative attempted to unshackle the program manager from a centrally-

regulated and overbearing defense acquisition process. Specifically, it

recommended that instead of following the narrow and overstipulated

procedures currently in use, OSD should issue broad, policy-type statements

and allow the program managers to implement the policy or intent. The

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Commission did acknowledge that in order for this recommendation to be successful, highly-skilled professionals would be required to fill key positions to interpret these statements and convert policy intent into program action. [Ref. 13:p. 152]

b. Issue--Procurement 9 "Program Management" - The major theme of this recommendation was the reduction of paperwork and reporting requirements. The Commission estimated the cost of completing all required acquisition paperwork to be two percent of the total contract price (about $700 million annually for DoD programs); others approximated this cost to be much higher. [Ref. 7:p. 198] This recommendation also included suggestions to bring into balance program manager authority, responsibility and accountability. A breakdown of additional inefficiencies, similar to those provided by the Grace Commission, is provided in Table 1.

A subsequent GAO analysis of Grace Commission recommendations supported this issue. Results of their analysis led to the conclusion that:

> Multi-layered staff and management briefings coupled with the numerous requests and inquires direct the program manager's attention from managing the program. Instead of the Systems Commands shielding the PM from these non-productive activities, the various Service staffs contribute significantly to them . . . GAO believes these issues are longstanding and the Services have been unable to deal with them effectively. [Ref. 14:p. 200]

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TABLE 1

GRACE COMMISSION COST SAVING AREAS

Problem area	Potential annual savings Rationale for efficiency	in billions
Weapons acquisition practices:		
Little use of commercial systems subsystems & components	Individual items at least 50% cheaper (applicable to at least 5% of acquisition costs)	$ 15
Lack of continuous competition	Net savings on applicable programs (approx 20%) applicable to approx. 50% of production programs	$ 10
Inefficient government procurement regulations and laws	Savings estimates range from 5% to 30% of acquisition costs (low end is reasonable)	$ 8
Excessive specifications (product & process)	Overspecification raises acquisition costs by 5%	$ 8
Excessive prime-contractor facilities and labor	More than required (5% of related production)	$ 3
Excessive data & reporting requirements	Estimated at 5% of development costs	$ 3
Long development cycles	Shorter cycle could reduce full-scale development by approximately 5%	$ 2
Lack of independent development of "standard" subsystems	Higher volume and reduced design costs should save 25% (on perhaps 5% of acquisition dollars)	$ 2
	Subtotal (root-sum-square)	$ 23

Source: adapted from [Ref. 7:p. 341]

3. The Federal Acquisition Regulation

The Federal Acquisition Regulation (FAR) was published in 1984 in response to public law 93-400 and recommendations of previous defense reform initiatives. The FAR regulates government acquisition programs as the only applicable body of regulations. The FAR was designed to consolidate and reconcile the existing volumes of widespread regulations which were

duplicative, circuitous and overlapping. The author, the Office of Federal Procurement Policy, boasted a 62% decrease in the volume of existing regulations and elimination of nearly half of all secondary organizational and lower-level regulations. [Ref. 14:p. 213]

It was assumed that one, comprehensive volume of regulations would bring an end to the confusion that resulted from the baffling trail of cross-referenced rules and regulations. In theory, this single volume of regulations would reduce the non value-added workload and regulatory burden on the program management office. Shockingly, 822 out of 1066 pages of the FAR were replaced within the first two years of its existence! [Ref. 1:p. 148]

The DFARS, the defense supplement to the FAR, continuously evolved with DoD-specific regulations. It contained over 7500 pages and referred to an additional 30,000 pages of guidance or references. [Ref. 13:p. 150]

Frequently, program management offices were not able to effectively internalize the voluminous changes into its operating procedures. In his book, The Defense Management Challenge, J.R. Fox speculated:

> The profusion of new laws, directives, and instructions, combined with the limited training and experience of the personnel assigned to manage the acquisition process, means in fact that practices in the field are usually different from the laws and regulations on the books. [Ref. 8:p. 37]

Consequently, this led program managers and industry to "bump along" until informed by one of the numerous oversight agencies of some regulatory violation. If the violation was severe enough, additional military department regulations were sure to follow. These "lessons-learned" regulations were

designed to prevent such violations from occurring again; however, they further constricted program manger flexibility and innovation. [Ref 2:p. 22]

4. Packard Commission

Defense acquisition fraud, waste and abuse and defense-firm ethics problems continued into the mid 1980's. Recurring stories about inefficient defense acquisition programs prompted President Reagan to create a blue ribbon commission in 1985. The Packard Commission (or herein just the Commission), named after its chairman David Packard, was chartered to ". . . evaluate the defense acquisition system, to determine how it might be improved, and to recommend changes that could lead to the acquisition of military equipment with equal or greater performance but at lower cost and with less delay." [Ref. 15:p. 41]

At the completion of the study, the chairman of the Commission, David Packard, stated:

> These problems are deeply entrenched and have developed over several decades from an increasingly bureaucratic and overregulated process. As a result, all too many of our weapon systems cost too much, take too long to develop, and, by the time they are fielded, incorporate obsolete technology. . . . In general, we discovered these problems were seldom the result of fraud or dishonesty. Rather, they were symptomatic of other underlying problems that affect the entire acquisition system. [Ref. 15:p. 5]

Packard's final report published common-sense, business-like recommendations including a number aimed specifically at reducing overregulation, unnecessary reporting and providing fiscal stability to programs. The Commission utilized a different approach to reform after

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realizing that senior-level commitment to deregulation and avoidance of micromanagement had not reached the program management office under previous initiatives. [Ref. 2:p. 18]

The Commissions's far-reaching solutions emulated six characteristics of the most successful commercial and government projects. The Commission set forth its recommendations for acquisition improvement based on providing these principles [Ref. 2:p. 8]:

1. Clear Command Channels

2. Program Stability

3. Limited Reporting Requirements

4. Small, High Quality Staffs

5. Communication with Users

6. Better Systems Development

The reforms forwarded by the Commission attacked the underlying, systemic problems in the acquisition process. The Commission realized that, in the past, new legislation and over-regulation became the normal mode of policy implementation and stated in its report:

> Federal Law governing procurement has become overwhelmingly complex. Each new statute adopted by the Congress has spawned more administrative regulation. As laws and regulations have proliferated, defense acquisition has become ever more bureaucratic and encumbered by overstaffed and unproductive layers of management. [Ref. 15:p. 48]

Legislative attempts to reform DoD acquisition systems increased during the early 1980's. It became apparent to the Packard Commission when

analyzing the volume of new legislation and resultant regulation (detailed in the following section), that these tools had been used historically by the policy-makers without any consideration of the tradeoff in managerial efficiency or loss of individual program manager initiative.

Many managerial layers existed in the chain-of-command that existed in the mid 1980's. Personnel in these layers had the general responsibility to oversee managerial decisions and ensure compliance with various laws and regulations (small and minority business requirements, reliability and maintainability requirements, etc.). They usually required documentation for their specific purpose or functional "rice bowl". Some even had veto power over program manager decisions but did not share any of his responsibility or accountability for managing the program to cost or schedule baselines. [Ref. 15:p. 46]

Their "guidance" to alter, change or veto managerial decisions usually required additional program manager time to re-staff and re-submit whatever was rejected. The Packard Commission recommended the elimination of these superfluous layers to allow the manager to concentrate on managing his program and avoid the requirement to check and defend his decision up the lengthy chain-of-command.

The Packard reform effort, like many of its predecessors, demonstrated that micromanagement obscured accountability and reduced incentives to improve managerial performance. The Commission noted that by reducing

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administrative and bureaucratic layers, a general increase in personal accountability and reduction in administrative and bureaucratic layering would result. [Ref. 2:p. 4] It attempted to eliminate redundant reporting requirements by creating a new, streamlined management structure.

Under the provisions of this new structure, the program manager would repo t directly to a Program Executive Officer (PEO), who would manage a reasonable and defined number of programs. The PEO would act as the only managerial layer between the program manager and the Service Acquisition Executive (SAE). The SAE would be responsible for managing all military department programs. The SAE would report directly to the Defense Acquisition Executive (DAE) who would maintain overall responsibility for all DoD acquisition programs. The shorter, cleaner, chain-of-command would enable a program manager to execute his program in a manner similar to the best managed commercial companies.

The 1986 Goldwater-Nichols Act demonstrated congressional support for this respected and much needed reform and implemented many Packard Commission recommendations including streamlined management of all DoD acquisition programs. President Reagan issued National Security Decision Directive 219 mandating implementation of many Packard Commission recommendations by DoD. President Reagan indicated further resolve and belief in the potential benefit of these reforms by requesting Mr. Packard to return one-year later to report on the status and effectiveness of DoD implementation.

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The conceptual basis for the DEP was contained in Packard Commission recommendations that called for regulatory relief, the implementation of a streamlined, reporting chain-of-command and fiscal stability. Congress conceived the DEP as an experiment to consolidate and aggressively implement these reforms in selected DoD programs. These experimental programs would be analyzed to test the applicability and range of the Packard initiatives in DoD acquisition programs.

C. CONGRESS

> "Congress is not the answer to waste. Congress is the problem. They mean well but reformers are too often the cause of what's wrong with the military."
>
> -Congressman Jim Courter
> [Ref. 7:p. 109]

Regarding defense, the U.S. Constitution, Article I, Section 8, Clauses 11-14, gives Congress the authority to: (1) declare war, (2) appropriate money for defense and (3) to make rules for the government and regulation of the land and Naval forces.

1. Acquisition Oversight

Congressional control through oversight of the acquisition process was a major factor influencing the creation of the DEP. For many years, the typical congressional response to major reform efforts was the attempt to force implementation of recommendations onto DoD through extensive, detailed legislation or report language. Although many congressmen professed to

understand the detrimental effects of this micromanagement, little headway was made to stem the flood of new laws and language. New policies usually filtered down to the program management level as regulation or increased oversight.

Figures 2-4 detail the growth of indicators of congressional micromanagement between 1970 and 1987. The cumulative increase in each of the categories is indicative of the degree of micromanagement felt at the program management level. The growth of congressional micromanagement highlighted in Figures 2-4 was used to justify DEP implementation by Senator Dan Quayle in 1985 when he introduced the DEP concept to Congress. [Ref. 16]

Figures 2 and 3 describe the general increase in the degree of detail that Congress pursued during this period. Disclosure of wasteful, DoD actions was a major cause of the increase in the detail of this type of congressional involvement. One can infer that congressional requests for program information also increased proportionally to support this increased attention.

The categories displayed in Figure 4 had a much greater demand on program manager time. This figure generally indicates the loss of managerial freedom due to congressional "guidance" and requests for detailed studies of acquisition programs.

NUMBER OF PAGES IN DEFENSE AUTHORIZATION & APPROPRIATION BILLS
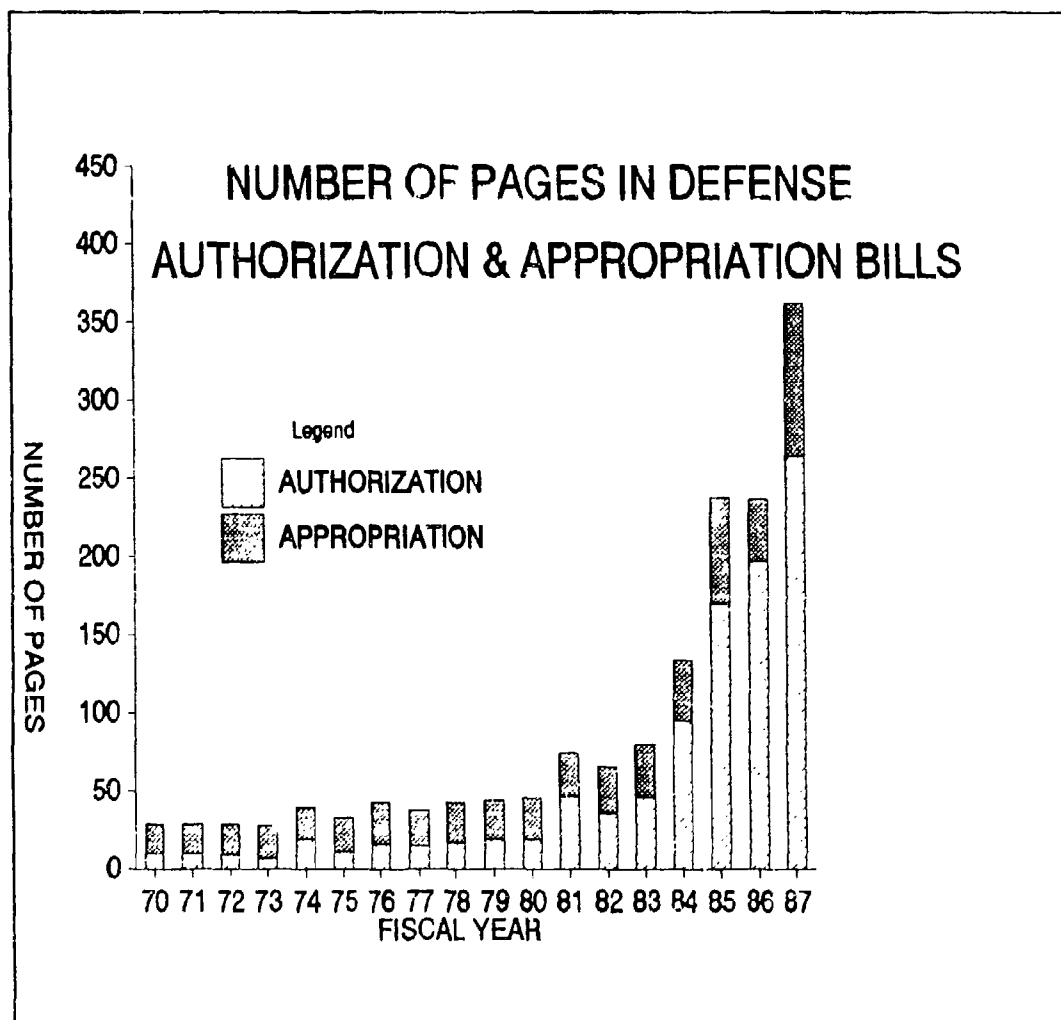
Figure 2

SOURCE: [Ref. 19:p. 39]

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NUMBER OF CONGRESSIONAL DIRECTIVES TO DoD
(FOR SELECTED YEARS)

Legend

- GENERAL PROVISIONS
- REPORTS/STUDIES
- OTHER PROVISIONS

NUMBER OF DIRECTIVES

FISCAL YEAR
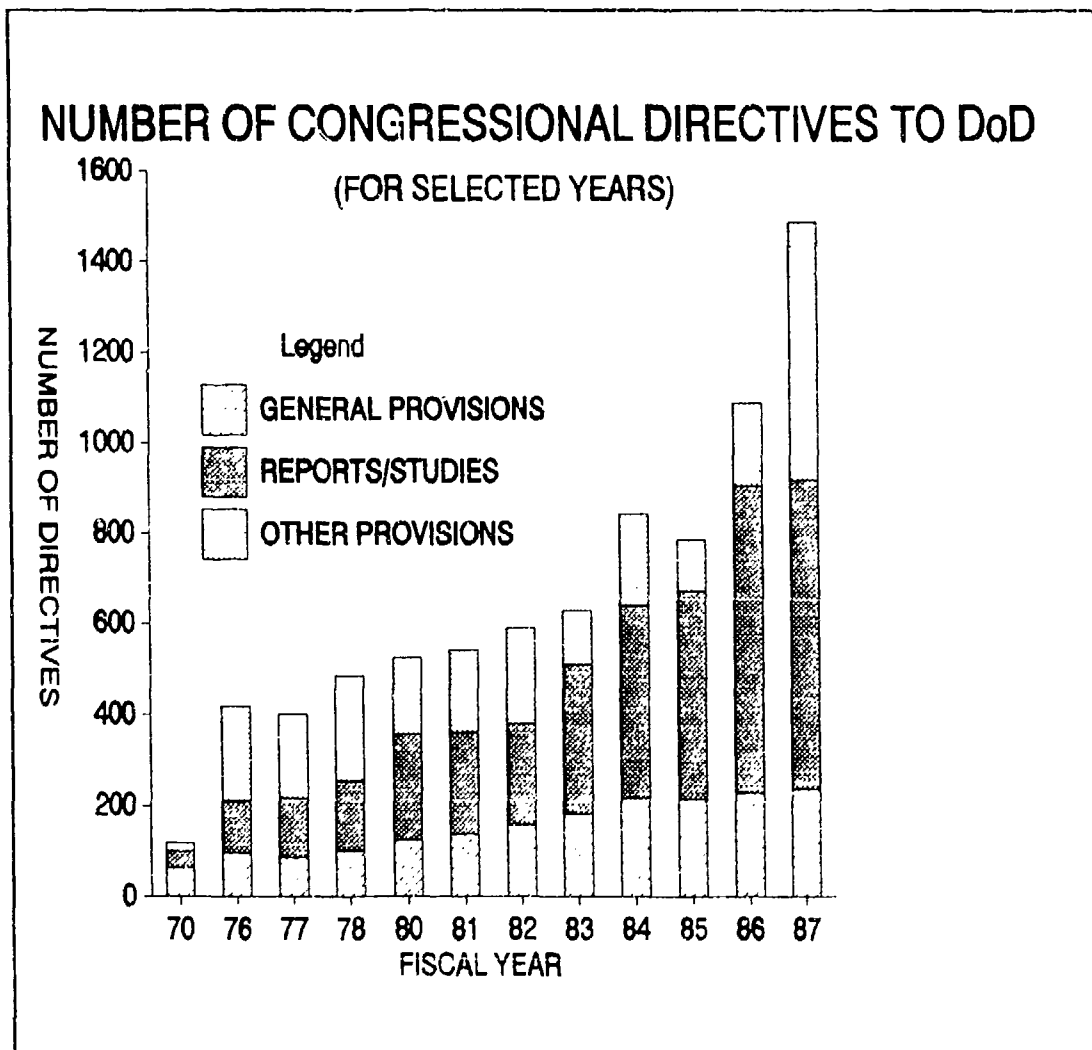
Figure 3

SOURCE: [Ref. 19:p. 78]

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**NUMBER OF DEFENSE PROGRAM LINE ITEM
ADJUSTMENTS IN AUTHORIZATION & APPROPRIATION BILLS**
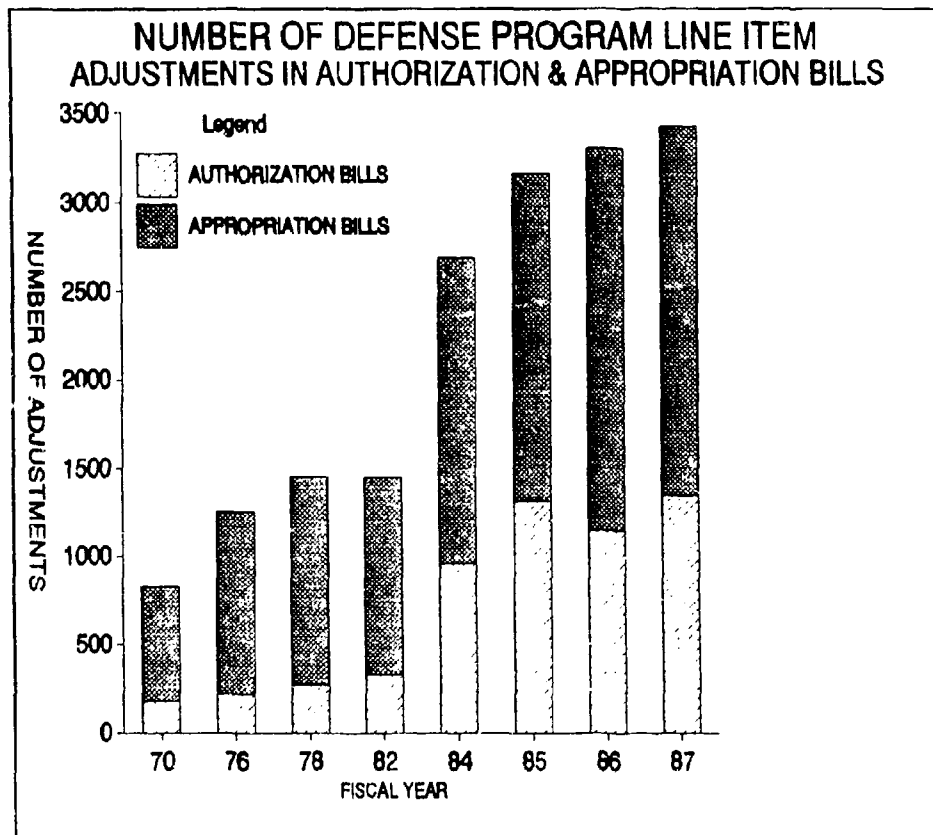
Figure 4

SOURCE: [Ref. 19:p. 43]

a. Legislative Reforms

Congress must resist its inveterate tendency to legislate
management practices and organizational details of DoD.
Excellence in defense management will not come from
legislative efforts to control and arrange the minutest
aspects of DoD's operations. Congress can more usefully
contribute by concentrating on larger, often neglected
issues of overall defense posture and military performance.

--The Packard Commission
[Ref. 15:p. 4]

In the early 1980's, Congress introduced approximately 130 acquisition

reform laws per year. By the mid 1980's, Congress was introducing over 150

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per year! [Ref. 8:p. 37] Legislative reforms were typically the result of a quick reaction to a particular problem. Narrowly-scoped legislative reforms, directed at specific acquisition problems in the short term, had usually hidden, but broad, effects over the long term. The resultant laws and regulations directed management actions which ironically tended ". . . to exacerbate these underlying problems by making acquisition procedures even more inflexible and removing whatever motivation exists for the exercise of individual judgement." [Ref. 17:p. 5] Each law passed by Congress spawned numerous regulations within DoD. Many of these reform statutes were poorly worded because they were the result of the process of political compromise. [Ref. 8:p. 36]

Furthermore, confusion and misinterpretation of the poorly worded statute within DoD sometimes led to the creation of regulations that complied with the letter of the law but not its intent. Other more important and often immeasurable effects on program management were characterized by J.R. Fox in The Defense Management Challenge:

Ironically, in attempting to reform a management process many members believed to be fundamentally flawed, congressmen and their staffs - though generally well intentioned - often left new and equally serious problems in their wake.

One undesirable effect of micro-management was the further obfuscation of accountability . . . the vast majority of reform legislation led to so many additional checks, balances, and layers of review that decisions remained too often a product of the bureaucracy, not of individuals. . . Other undesirable consequences included the reduction of managerial autonomy and the emergence of incentives that discouraged individual initiative and

encouraged defense managers to concentrate more on process and procedure that on results. [Ref. 8:p. 83]

The attempt to bring into balance the authority and responsibility of the program manager was a recurring theme of Packard Commission recommendations. The DEP was formulated by Congress to return program manager flexibility and authority.

b. Staff Growth

Congress experienced a 400 percent increase in the size of its staff during the 30 years preceding 1985, while the staff level within DoD remained relatively stable. This multitude of staff excludes additional analysts from agencies such as GAO, CBO, and OMB. [Ref. 7:p. 110]

The proliferation of staff encouraged specialization among staff members. Staff specialization subsequently led to more detailed requests for data or information and encouraged micromanagerial tendencies to get worse. More detailed management by Congress required disproportionately more data from the program manager level. The resultant effect was a large increase in the numbers of DoD managerial layers, distractions and time managers spent away from their programs answering queries, completing reports and preparing for or giving reviews and briefings. The larger congressional staffs were able to examine the entire defense budget, line-by-line and adjust and improve programs or procedures.

Their recommendations often ended up as law or committee report language, both of which required a DoD response. Donald Hicks, Under

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Secretary of Defense for Research and Engineering in 1986, pointed out that approximately five pages of explanations were required to be developed by DoD management for each of the 1800 program adjustments made by Congress. [Ref. 18]

Figures 2 and 3 provide examples of the increased size and scope of the Defense Authorization and Appropriation Acts that coincided with the increase in congressional staffs. While no one can assign direct cause and effect relationships between any one of these graphs and the degree of congressional tinkering or micromanagement, they collectively support the hypothesis that staff size led to an increase in the degree of congressional micromanagement. [Ref. 19]

c. *Reporting*

It is important to consider the burdensome effect of reporting on the limited time program managers and their staff have to actually manage their programs. Managers complain that they spend a majority of their time preparing and giving reports and answering queries. Historical research of their complaint indicated:

> In 1983, 1306 witnesses testified for 2160 hours in hearings before 96 committees and subcommittees. 85,000 written budget inquires and 21,753 pages of supporting documents [were] submitted by DoD to support the 1984 budget request. The Department of Defense estimates that 'roughly 200 hours of staff time in preparation and follow-up are required for each hour of testimony by senior DoD officials'. [Ref. 7:p. 114]

A DoD study of the 1985 National Defense Authorization and Appropriation Acts and their associated reports identified the requirement for

458 separate DoD reports to Congress. That year, the Pentagon dutifully delivered an estimated 24,000 pages of documentation in execution of this requirement. [Ref. 1:p. 125]

The time program managers spend composing the above and other reporting requirements outlined in Figure 4 seriously reduces the amount of time spent actually managing their programs. This effect becomes more pronounced when remembering that the increasing trend of congressional "interest" has not slowed down. The deleterious effect on program manager time was a key concept that supported development of the DEP concept.

Fiscal instability is another cause of a significant number of reporting requirements. Program managers are required to prepare, defend and change their program and budget numerous times during the life of the program. On the average, a ". . . R&D program is voted by Congress alone an average of 18 times a year in its 8-year life--a total of 144 opportunities to change something." [Ref. 1:p. 171] This made it essential for program managers to politic the numerous congressional committees and subcommittees as well as their superiors within the military organization to ensure satisfactory program funding was continued to their programs.

Continued uncertainty of future program budget levels changes the program manager role from manager to advocate. This role may have decreased his incentive to aggressively report cost and schedule inefficiencies

in his program because it showed weakness and exposed the program to potential budget reductions. [Ref. 7:p. 211]

Declining defense budgets caused congressional and DoD budget decision makers to cut programs annually. Budget comptrollers quickly reprogrammed the budgets of those programs that showed particular weakness in cost or schedule baselines. The additional time managers were impelled to spend acting as the program advocate meant less time for them to actively manage their program. Program managers report spending 50-70 percent of their time advocating their program to higher levels. [Ref. 7:p. 212]

To increase the efficiency of the acquisition process and reduce the "hidden cost" of program advocacy, the Packard Commission recommended stabilizing programs by utilizing multi-year budgets. One pillar of the DEP called for the experimental implementation of milestone-to-milestone authorization to increase program efficiency while also reducing the reporting and advocacy burden on program managers.

Unfortunately, the political reality of the budget process prevented this aspect of reform from complete implementation. The delicate balance of power within the congressional committees and between the Executive Branch and Congress would be significantly upset by the widespread use of multi-year budgets in DoD. Further analysis is presented in Chapter V. Currently, the defense budget is generally authorized bi-annually but defended, debated and appropriated every year.

d. Other Bodies That Influence Acquisition Policy

Organizations other than Congress also affect acquisition policy. Although many lacked binding, statutory authority to impose their controls, DoD could not blatantly disregard their "direction" or "guidance". For example, DoD must comply with OMB circulars although they are not based in statute. Because it is confusing what authority these requirements have, status as neither law, report language nor DoD regulation contributes to making the program manager's job of compliance even more difficult. [Ref. 20]

A plethora of audit agencies employed by Congress, the Executive Branch and within DoD also affect acquisition policy. A substantial amount of program management time is required to participate in an audit. [Ref. 21, 22] Auditors have a pervasive effect on the attitude of the acquisition community (this is discussed in a later section). Results of an audit could potentially, return in one of the more formal controls such as law or regulation.

e. Summary

The actual and opportunity costs of the extra time and effort required to comply with new and existing laws, regulations, audits and reporting requirements are seldom weighed against their cost by policy-makers when designing a new control. The opportunity cost of the time managers do not spend checking and managing their program could be enormous and should be considered. Furthermore, the controls and the addition costs are rarely

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removed from the regulatory structure after the original purpose or objective disappears.

The resultant morass of laws, regulations and reporting requirements began to resemble a compost pile. The old requirements lay at the bottom of the pile while new ones were heaped on top. Soon, those new requirements are covered by even newer ones. Defense Enterprise Programs attempted to sweep away the antiquated regulatory and reporting requirements that were no longer relevant to DoD acquisition programs.

D. DEPARTMENT of DEFENSE - ACQUISITION

"The way we're doing business now, if you come down from on high and you said your job was to devise the worst combination between Congress, the Pentagon and all the elements, I think we've got it."

- Senator Sam Nunn
[Ref. 23]

1. General Climate

The public was bombarded by press reports indicating alleged waste, fraud and abuse of almost criminal proportion in the early and mid-1980's. The flood of acquisition reform which followed was reportedly instituted in patchwork fashion. [Ref. 23] Disclosure of outrageous spare parts prices, enormous overruns on acquisition programs and numerous investigations of ethics violations had the public clamoring for justice.

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a. Public Perception

A March 1985 Harris/<u>Business Week</u> poll reported that
approximately 70% of the American public was convinced that contractors
routinely overcharged the government. One year later, the Packard
Commission revealed the public belief that almost half the DoD budget was
lost to waste and fraud. [Ref. 8:pp. 35-36] Continual fraud headlines
"sustained reformist pressures in Congress and nullified pleas from Pentagon
and defense industry officials for a one or two year pause in statutory action."
[Ref. 23:p. 3]

Within DoD, a "reform-of-the-month" attitude seemed to prevail. In
congressional testimony, General L. Skantze, Commander Air Force Systems
Command, tried to convince Congress to refrain from implementing further
reforms describing the climate this way:

> With the flood of complex legislation we have been implementing. . . .
> we seem to be in a constant state of turmoil interpreting new requirements,
> writing regulations, training our people and verifying implementations. We
> have not had time to examine the results of the new requirements, refine
> our policies and then develop recommended changes we believe are
> appropriate. [Ref. 24:p. 37]

Acquisition experts within DoD realized that their number one goal
was to, ". . . lock on to the public confidence". [Ref. 25] It was postulated that
more efficient acquisition might help show the public and Congress that DoD
managers could wisely spend public money and were deserving of their trust
once again.

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b. Adversarial Relationships

Many in the acquisition community were quick to acknowledge that
the acquisition system was a mess and that no one in particular could be
blamed. Mistrust of the acquisition community was rampant.
Congresswoman Barbara Boxer, an active participant in the acquisition reform
debates of 1985, justified the reason for this mistrust. She believed that
Congress ". . . learned to be suspicious of [DoD] assurances that things are not
as bad as they seem and are getting better all the time. The evidence of
Pentagon waste and mismanagement is never ending." [Ref. 24:p. 33]

Numerous audits were employed as a result of this mistrust. [Ref. 7:p.
112] Congress and DoD employed an army of auditors (GAO, DoD Inspector
General and military department audit agencies) to ensure programs complied
with the multitude of laws, regulations and reporting requirements. An
informal survey of top contractors found that on the average, 800-1000
government personnel "visited" each company, each week. [Ref. 26]

Auditors were sometimes perceived by those in the acquisition
community as "hired-guns", sent in to find something wrong with a program.
[Refs. 22, 27] The professional reputation and promotion of the program
manager is based on his managerial performance. Therefore, it seems logical
to conclude that the program manager had incentive to assume the advocate
role whenever necessary and cease reporting trouble to try to make his
program look good. The juxtaposition of this and the responsible manager

role presents the manager with a no-win situation. He might fail if he actively seeks and reports program inefficiencies or conversely, strongly advocates his program while inefficiencies are discovered by others.

Demands for managerial enhancement programs like the DEP resounded in the halls of Congress and the Pentagon. It was widely understood that ". . . with a cooperative effort rather than an adversarial, [one could] take specific programs, make some radical, quantum changes in how we do business, and [give] some big payoffs for this country." [Ref. 20]

A small number of these radical programs had been operating for many years and apparently suffered much less from the debilitating effects of excessive oversight and micromanagement. "Black" (classified) programs operated under a security blanket that restricted data access and eliminated much of the routine oversight experienced by regular programs. Many acquisition experts, including Senator Sam Nunn, believed that "black" programs, with their lack of detailed oversight, ". . . in many cases, are managed better than the white." [Ref. 23] He acknowledged that overregulation ". . . has produced such a staggering bureaucratic nightmare that there is an increasing tendency to go black" in order to get around it. [Ref. 23]

Air Force "black" or specialized-management programs, operating under Air Force Regulation (AFR) 800-29, were considered to be relatively

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successful programs. [Ref. 16] The specialized-management process was designed to

> . . . cut through red tape and enable selected people to bypass routine management requirements, some staff, and get on with the task at hand; however, public law remains sacrosanct . . . Specialized management allows program managers wide latitude to ignore paperwork and tasks including justification of their respective individual decisions. [Ref. 12:p. 15]

Specialized management programs were the precursors of the DEP. One interviewee on the SASC staff believed that the DEP was created with characteristics similar to "black" programs in an attempt to reduce oversight and increase managerial authority and responsibility in non-classified programs. [Ref. 16]

c. Risk Aversion

The program manager is at the center of competition within and between the DoD, Congress, and the defense industry. He must respond to each according to their varied needs and agendas. The result of systemic congressional and DoD micromanagement has been program management with ". . . a negative, mind-numbing, debilitating mindset that takes refuge in checklists, a work-to-the-rule ethic, and an adamant refusal to say yes to any innovation proposal or deviation from established procedures." [Ref. 6:p. 79] News headlines of program waste or abuse were constantly available to remind managers of the consequences of failure. This offered a terrific incentive to managers to act by "checking-the-box" marked regulation instead of applying good, business-sense to management decisions. [Ref. 2:p. 4]

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Program managers had and still have strong legal incentive to avoid all appearances of collusion with industry because of numerous ongoing ethics investigations. One method that program managers used to avoid collusion was by managing to the absolute letter of the laws and regulations even if this prevented making common sense concessions to the contractor. One industry vice-president commented that ". . . the barrage of propaganda, the fraud hotlines, the guilty before explanation atmosphere have a paralytic effect. In short, there are mostly downside outcomes for the collaborative government [employee]." [Ref. 20:p. 109]

The other aspect of risk aversion involves reporting requirements. As burdensome as reporting had become, it offered one significant advantage for the program manager--shelter from complete responsibility for the outcome of his program. Responsibility for program outcome was diffused via reporting to include all who received the reports. If circumstances led to trouble in a program, a manager could identify superiors who had reviewed his plan and offered no comment, implying tacit approval. It was felt that superiors, once notified of program status or managerial intent, shared program risk through implied consensus with the report unless they wrote a rebuttal. [Ref. 16:p. 35]

2. *Staff Effects*

As Congress increased the detail of the information it requested, DoD added layers of management to collect the data. The continual evolution of the acquisition structure "buried the program manager under layers of people

above him." [Ref. 28] "Staffers" oversaw every program manager decision to ensure compliance with the increasing multitude of laws and rules affecting his program. Program managers maintained that ". . . at each level of this chain, a bureaucracy has been created to fulfill and perpetuate these requirements." [Ref. 12:p. 13]

The Packard Commission also recognized the burdensome effects on program managers of the superfluous staff and management layers throughout DoD. It recommended elimination of these layers to allow the manager to concentrate on managing his program instead of checking and defending his decision up the lengthy chain-of-command. [Ref. 17:p. 16]

Some "staffers" within each management layer had veto power over program manager actions yet did not share responsibility for managing the program to cost or schedule baseline. Their choice to change or veto a decision usually required additional managerial time to draft a response or additional money for a study which was not built into the original program baseline. [Ref. 7:p. 147]

The Commission further recommended creation of a new Under Secretary of Defense position (USD/A) as the new centerpiece of its new defense acquisition hierarchy at the OSD level. Service Acquisition Executives (SAE) were to be designated at the military department level and manage all military department programs. The Program Executive Officer (PEO) would oversee a specific number of programs and act as the only managerial layer

between the program manager and the SAE. Of note, the systems commands of each military department were excluded from the line-type, managerial chain-of-command. [Ref. 15:p. 50]

This reorganization was supported by a broader reform movement within Congress aimed at stopping further diffusion of program manager authority and accountability. The congressional desire to return program manager authority to appropriate levels was an underlying philosophy of Packard Commission reforms and the DEP. Congressman Bill Nichols, co-author of the implementation legislation for Packard Commission reforms, the Goldwater-Nichols Act, summed up the undercurrent of the Packard Commission reform effort this way:

> We are looking for personal accountability and elimination of unnecessary layers of bureaucracy, not to have a person to point a finger at when things go wrong; rather, to give authority back to the person responsible for making a decision, and to stop second guessing.

> This concern was the genesis for the Program Executive Officer (PEO) concept. Although this concept was conceived by the Packard Commission, the Congress was receptive to the idea because it fit hand-in-glove with another concern of ours--that there is no accountability in the Department of Defense acquisition process. Program managers were changing frequently, and so many people were involved in making programmatic decisions that it was impossible to say any one person was in charge of a program . . . We hoped this might force a reevaluation of the necessity for reviewing organizations. [Ref. 29]

While not a specifically enumerated reform of the Packard Commission, the DEP embodied many of its concepts. The three pillars of the DEP were:

1. reducing unnecessary regulatory and reporting requirements

2. utilizing a streamlined management structure to reduce excessive oversight

3. utilizing milestone-to-milestone funding to improve fiscal stability and improve managerial and fiscal efficiency.

E. CHAPTER SUMMARY

A review of the reforms of the past decade offers insight into the perceived problems in the DoD acquisition process. Each reform addressed issues of bureaucratic growth, regulation and managerial inflexibility and attempted to apply sound, commercial business practices to DoD acquisition management. However, implementation of each reform failed to provide acquisition managers with the intended improvements in efficiency.

The Packard Commission endeavored to be different by attempting to correct the underlying systemic problems that plagued the DoD acquisition process. It suggested a significant restructuring of the acquisition chain-of-command and recommended the return of program manager authority and responsibility to satisfactory and proportionate levels.

Congressional opinion on the method to achieve improvements in the acquisition system diverged. Some members of Congress desired to experiment with the DEP concept by granting managerial flexibility These members realized the extent of the wide-spread growth of micromanagement and its deleterious effects. Still, other members countered this agenda with almost daily observations that the system needed close oversight.

Ultimateiy, what many members of Congress failed to realize in the 1980's was that each narrowly-scoped legislative reform spawned numerous and sometimes misdirected regulations with long-term effects within DoD. These regulations had broad effects that stifled managerial initiative and the incentive to apply good business sense to everyday decisions.

The effect of micromanagement on the program manager was perverse. Almost daily stories of $600 toilet seats and $400 hammers generated congressional and public mistrust of the acquisition system. The use of frequent program audits gave program managers cause to execute programs in compliance with every letter of every law while, at times, disregarding good business-sense decisions. The next chapter analyzes the characteristics of the Defense Enterprise Program in greater detail.

III. DEFENSE ENTERPRISE PROGRAM - GENESIS

> The provisions in regard to contract, I fear, will do little good. The legislation on this subject is already complicated and the additional guards intended by this bill will still more embarrass officers and people in the transaction of the public business.
>
> Every additional obstacle adds to the delay and to the cost of procuring military supplies.
>
> The department needs tools to work with. Regulations, laws, customs, prescriptions as to its manner of doing business already exist in abundance.

> -- M. C. Megis
> Quartermaster General of the Army,
> 1864

A. CONGRESSIONAL GOALS AND INTENT

Congressional advocates of acquisition reform in 1986 generally assumed that the inefficient managerial practices of DoD had become entrenched over time and would not be changed quickly. However, they also assumed that the probability of declining defense budgets in the future would necessitate a departure from the old and less efficient DoD acquisition methods: a view shared with DoD. [Ref. 3:p. 257] The DEP was an attempt by Congress to implement Packard Commission recommendations to establish acquisition procedures similar to those employed in successful commercial entities.

1. Senate Armed Services Committee Subcommittee on Acquisition Policy

The House and Senate Armed Services Committees established subcommittees on acquisition policy in 1985 to assess how well DoD had ". . . executed recent procurement statutes and whether Congress [could] find a broad approach to reform in lieu of piecemeal adjustments" that had been made in the past. [Ref. 24: p. 35] Senator Dan Quayle, chairman of the Senate subcommittee and his staff, conducted numerous interviews with program managers early in the research phase of this reform effort to gain an understanding of what they believed was wrong with the acquisition process. He later revealed the general intent of his subcommittee, reporting that he:

> . . . talked to one program manager in charge of a major procurement program who said he has 41 bosses between himself and the Secretary of the Air Force. You tell me how that person can manage his program. He can't. You've got to give them the authority to run their own programs and then hold them accountable. I'd sure like to eliminate all 41 of those checkers, although legislatively you can't. . . we're [going to] try to shift the trend away from more checkers to less. [Ref. 24: p. 35]

Common responses given by program managers during the interviews indicated that too many regulatory and reporting requirements existed and that program managers did not have enough authority or flexibility to effectively manage their programs. [Ref. 16] Senator Quayle supplied Packard Commission analysts with a detailed synopsis of these interviews. These results later became the basis for some of the Packard Commission recommendations. [Ref. 16]

The acquisition policy subcommittees held hearings throughout 1985 and 1986 and solicited testimony from numerous witnesses expert in the defense acquisition process. Their testimony spanned the broad spectrum of acquisition and brought great insight on process inefficiencies. When asked to offer solutions to these problems, the witnesses usually echoed the calls of the program manager interviews for relief from overregulation, increased fiscal stability and a moratorium on any further legislation. [Ref. 16]

Senator Quayle decided to focus the Senate subcommittee recommendations on giving program managers more managerial latitude to run their programs. [Ref. 16] The subcommittee recommended eliminating some of the managerial layering, reducing program manager reporting and adopting a management-by-exception approach similar to that used by DoD. [Ref. 24:pp. 35-37] The management-by-exception approach calls for a "hands-off" management style that attempts to minimize interruptions or intrusions on management. A program operating under this concept is reviewed and evaluated only at certain intervals, usually milestones, and left to run without interruption as long as it continues to operate within the established baseline flexibility limits. "Trigger" events (ie., exceeding a baseline) are also usually established to signal trouble and require program review between regular reviews to accommodate eventualities. [Ref. 38:p. 12] Senator Quayle ultimately recommended the return of program manager authority to match his responsibility through DEP legislation. [Ref. 24:p. 35] As a result of these

interviews and subcommittee testimony, Senator Quayle conceived, introduced and spearheaded passage of DEP legislation in 1986. [Ref. 16]

2. Defense Enterprise Program Goals and Congressional Intent

Testimony to both defense acquisition policy subcommittees revealed the general belief that a management approach more like that found in commercial industry could be applied to DoD acquisition with profound results. Many commented that commercial style management, based on the principles of ". . . decentralization, clear lines of authority and responsibility, and streamlined procedures have proven consistently successful in the past." [Ref. 3:p. 256]

Furthermore, within Congress there existed underlying concerns regarding the broad diffusion of authority and responsibility within DoD. Senator Nancy Kassebaum frustratingly reported to the Packard Commission that "if everyone is responsible for everything, then no one is really responsible for anything specific . . . I think it also really engages Congress very much in a micromanagement type of activity, which I do not really think works to great benefit either." [Ref. 24:p. 35]

Interviews with professional staff members of the Senate Armed Services Committee (SASC) indicated that, quite differently from its counterpart in the House, the SASC had a general feeling of trust and belief in the ability of program manager to appropriately manage programs. [Ref. 16] This trust created an environment sympathetic to initiation of reforms that called for increased managerial freedom and less oversight for DoD programs.

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Senator Sam Nunn, now the influential chairman of the SASC, demonstrated his support for this concept in 1985 by proposing that Congress give a few pilot programs "one-paragraph treatment" in law, waiving almost all existing rules and regulations. He offered this summary of the envisioned paragraph; "We want this to be done with an effective and efficient procurement method with the maximum of competition to the extent feasible and practical, period, end of sentence - 'now go do it.'" [Ref. 23] The environment of trust and the results of program manager interviews are both key components and foundation of the Defense Enterprise Program.

Congress implemented the DEP in a broader attempt to link program manager authority and responsibility. It intended that under DEP management, "the authority of the program manager to manage his program with minimum reliance on outside review would be enhanced" and that he would ". . . have the authority to accept or reject the proposals of the normal functional and oversight organizations within the Service with respect to his program." [Ref. 3:pp. 257-8] It was implied that while Congress would grant increased authority, it would also hold the program managers more accountable for the results of their managerial initiative.

Some members of Congress showed a keen interest in seeing this initiative succeed. The SASC report accompanying the legislation made specific recommendations regarding program selection. It outlined the

minimum qualifications a program manager needed and empowered him to select a personal staff without regard t normal military department protocols.

These characteristics, as well as the overall concept of the DEP, vaguely resemble the qualities of "black" programs. Staff of the SASC reported that in fact, some qualities of "black" programs (limited regulatory and reporting requirements and selective staffs) were directly detailed into DEP legislation. [Ref. 16]

Realizing that the DoD transition from the current system to that envisioned for the DEP might not be easy, Congress urged particular care and caution in the selection of the programs chosen for designation. Initially limited to major acquisition programs by law, the SASC report on the 1987 National Defense Authorization Act, ". . . concluded that such limitation was not necessary, and that in fact the Secretaries should select non-major programs as well as major systems for the purpose of determining the extent of the concept's applicability." [Ref. 3:p. 257]

The committee forwarded the following program selection criteria that it believed would be critical to the success of DEPs. [Ref. 3:p. 257]:

1. the projects should incorporate relatively mature technology with moderate program risk;

2. the projects should be firmly supported by requirements analysis and represent a consensus solution to meeting those requirements;

3. the projects should not initially be multi-billion dollar programs, but more modest programs;

4. the programs should promise significant advances over current capabilities

They also added policy guidance that required DEPs to have the most capable program managers available. They required him to have at least eight years of acquisition experience and assured greater stability of management than the norm by requiring him to serve at least four years or through the next major milestone.

The committee authorized him to immediately hand-pick the finest staff from other organizations. This power allowed him to choose and appoint his own senior and technical staff without regard for the standard protocol of designation by the Bureau of Personnel. The ability to select personal staffs was designed to allow the program manager to control the quality of his support staff and help him more efficiently manage his program. He was given direct control of these staffs to guarantee their absolute accountability.

These staffs were intended for use in an advisory role and to facilitate more effective liaison with other organizations. They were not however, intended to "substitute for or duplicate the roles and functions of existing organizations within the service or DoD." [Ref. 3:p. 258]

Congress intended DoD to apply the improved management practices envisioned for the DEP on a discerning basis to selected pilot programs with the hope of applying lessons-learned to programs DoD-wide. In its report on the 1987 National Defense Authorization Act, the SASC expressed the hope that the ". . . managerial lessons derived from enterprise programs be applied

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to the management of all defense programs to the maximum extent practicable." [Ref. 3:p. 257]

B. LEGISLATION

1. Original Senate Bill

Senator Quayle introduced Senate Bill S.2082 titled "Defense Acquisition Enterprise and Initiative Act" in Feb 1986. Relevant sections are provided in Appendix B. Interviews with professional members of the SASC staff indicated that this was not the original form of the bill. [Ref. 16]

They recalled that the original DEP concept was based on managerial trust and a sincere attempt to grant greater managerial flexibility and authority to program managers. They recalled the inclusion of provisions for regulatory relief and use of the recently-developed, streamlined-reporting, chain-of-command. The milestone-authorization concept was later included in the bill as a result of compromise as the bill passed the legislative process. [Ref. 16]

2. Enabling Legislation

Authorization to proceed with Defense Enterprise Program execution was embedded in the 1987 National Defense Authorization Act and later incorporated into the U.S. Code as Title 10, section 2436 and 2437. Sections relevant to the DEP are provided in Appendix C.

During SASC hearings on the DEP legislation, some congressmen were quick to point out that DoD already possessed the power necessary to implement a program similar to that called for in the bill. DoD could already

reduce military department regulations and reporting requirements and enhance the role of the program manager at the current time without further legislative impetus from Congress. During testimony, Mr. David Packard understood and anticipated DoD organizational resistance to change and simply answered this challenge believing that because this contention was true, "Congress was going to have to continue to put some pressure [on DoD] on this." [Ref. 30:p. 45]

3. Comparison

A comparison of the original Senate bill (Appendix B) and final legislation (Appendix C) shows a major difference in emphasis and structure, specifically regarding the relative importance of milestone-authorization. This reformation demonstrates a marked shift and diversion in the overall intent and attitude of Congress regarding the DEP.

The original bill primarily focused on increasing managerial authority and responsibility via regulatory and reporting relief. It also contained two paragraphs describing the intent of Congress to provide milestone-authorization when requested. In the final legislative action, the milestone-authorization process is elevated and described in great detail, receiving emphasis in an entirely distinct section of the law. This change in emphasis was the result of compromise with the HASC to get the bill into law. [Ref. 16]

What initially started out as an experimental reform extending managerial trust by supplying regulatory and reporting relief, became a

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complex undertaking possibly requiring the submission of program cost and schedule baselines to Congress. It also established required, elaborate procedures for SECDEF notification of Congress in the event a DEP, approved for milestone-authorization, deviated from its baseline. Automatic, instantaneous cancellation of further obligational authority for the milestone-approved funds of a DEP was one possible outcome of the baseline breach procedure that did not exist for non, milestone-approved, DEPs. This unfortunate redirection of congressional intent resulted in greater risk for DEPs and became a major issue in implementation.

4. Pillars of the Defense Enterprise Program

The implementing legislation outlined the three major principles of the DEP, each of equal status:

1. Regulatory relief

2. Streamlined Management

3. Milestone-to-Milestone Funding

Each of these pillars indicated the overall congressional intent to return program manager authority while increasing his responsibility.

a. Regulatory Relief

A major component of the DEP was regulatory relief. Congress repeatedly received appeals for regulatory relief from experts in the acquisition field. Members of Congress incorporated this pillar because they acknowledged that the number of detailed directives and regulations had

increased with the growth of the bureaucratic structure. Some believed that the acquisition process had become too inflexible. [Ref. 3:p. 256]

Congress created the law to simply state, ". . . a DEP shall not be subject to any regulation, policy, directive, or administrative rule or guideline relating to the acquisition activities of DoD other than the Federal Acquisition Regulation and the DoD supplement to the FAR . . . ." [Ref. 31:p. 3915]

Congress clearly intended to permit DEP managers to disregard all DoD-regulatory guidelines. However, nothing was done to reduce the regulatory burden of regulations that were based in statute, the FAR or DFARS.

The Senate report on the 1987 National Defense Authorization Act also included the requirement that the SAE ". . . review each additional directive, policy and other guideline for an enterprise program on an individual basis before any further administrative requirements are added to the program." [Ref. 3:p. 258] This requirement was designed to ensure that DEP managers remained unencumbered by reducing the ability of other organizations to impose parochially-inspired requirements on them. This also conspicuously placed responsibility on the SAE for keeping the degree of regulation in balance.

b. *Streamlined Management*

The SASC acknowledged in its report on the 1987 National Defense Authorization Act that:

The current framework for acquisition management in the Department of Defense runs counter to the private industry model. The authority and responsibility for the management of specific programs have been diluted by the growth of large bureaucratic oversight and review organizations. The growth of this bureaucracy has resulted in the insertion of unnecessary layers between program managers and the Secretaries of the Services. [Ref. 3:p. 256]

The DEP reporting process was constructed to utilize the streamlined reporting chain-of-command envisioned by the Packard Commission (not line-of-communication). It was the intent of Congress that, comparable to commercial practices, ". . . only the minimum reporting requirements consistent with statute and executive orders would encumber the enterprise program manager." [Ref. 3:p. 258] Institutionalization of the streamlined management structure would also enable Congress to affix responsibility for program results more easily.

According to the law, the program manager would be responsible to report only to the PEO, "directly, without intervening review or approval." [Ref. 31:p. 3914] Subsequently, the PEO would report under the same conditions to the SAE. Finally, responsibility would flow to the DAE (USD/A), who would act as the czar of the acquisition hierarchy and maintain responsibility toi aii DoD programs.

The law eliminated reporting through superfluous managerial layers which also diffused responsibility. It kept these layers from interfering managerially by requiring their parochial "chop" on decisions thereby forcefully asserting their views and opinions on DEP manager plans.

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Another facet of streamlined management that Congress included in the program legislation dealt with DEP manager performance evaluations. DEP procedures directed program manager performance evaluations be issued by the PEO and based on the manager's ability to achieve the objectives of his program, such as quality, timeliness and cost. This requirement intended to free the manager from his concerns regarding actions to eliminate, and perhaps perturb, superiors in the existing chain-of-command.

c. Milestone-to-Milestone Funding

The last major pillar of the DEP endeavored to provide fiscal stability for programs by sanctioning milestone-to-milestone funding (authorization only). This experiment in milestone-authorization was a preliminary attempt to provide programs with forward funding (authorization and appropriation) stability.

Long recognized to be a major contributor to managerial inefficiency, the grueling and time consuming process of annual program budget reviews for the multitude of military department and congressional organizations ". . . reinforces a tendency to focus on accounting considerations rather than policy issues. It tends also to prolong contentiousness over a program, thus undermining stable program management." [Ref. 3:p. 259]

In outlining the milestone-authorization pillar, DEP legislation ". . . established a new framework for legislative oversight and authorization of

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defense acquisition programs" that the SASC regarded to be superior to the current overbearing system in use. [Ref. 3:p. 259]

This new funding concept mirrored the Packard Commission recommendation to extend to Congress, the DoD driven procedure of baselining and reviewing program performance only at major milestones (management-by-exception). Congressional milestone review and authorization would free the program manager from further SASC and HASC attention unless the milestone-authorized DEP deviated from its established baseline. The fiscal stability achieved by an ideal milestone-funding process, authorization and forward funded appropriation, would finally allow program managers to plan for the long-term with some degree of assurance.

The DEP law allowed SECDEF to chose any or all of the DEPs to be designated milestone-to-milestone authorization candidates as long as it was ready to proceed or currently in full-scale engineering development or full-rate production. For those programs chosen for milestone-authorization, the law required SECDEF to submit a milestone-authorization request along with the program baseline to Congress 90 days after a program was designated a milestone-funding candidate.

The DEP law also provided a complex and troublesome procedure in the event a DEP, approved for milestone-authorization, deviated from its baseline. Automatic cancellation of all future obligational authority would occur 60 days after the SECDEF was notified of a deviation unless he reported

to Congress his intent to convene a board to formally review the program. He was also required to render the findings and recommendations of the review board along with a revised program baseline to Congress with the next fiscal year budget submission for analysis.

On top of all this, once a program deviation report was submitted by the milestone-approved DEP, the congressionally-approved, milestone-to-milestone funding for that program was <u>automatically canceled</u> at the beginning of the next fiscal year. This cancellation required the whole burdensome, milestone-funding procedure to begin again. This additional burden became a significant issue with DEP managers that saw added program risk of fiscal instability with little potential program benefit.

One of their intended benefits of milestone-authorization was to decrease the time managers spend briefing and justifying their programs. The time saved by the absence of an annual budget review cycle for authorizations might allow managers to spend more time managing a program. Program managers constantly complained that they had too little time to manage their program because of what they viewed to be excessive reporting requirements. [Ref. 8:p. 128]

Economic reasoning supports the notion that if far enough away from managerial equilibrium point, a marginal increase in a scarce resource like the time spent managing a program could yield a much larger gain in program efficiency. However, the potential increase in program efficiency has not been

parametrically quantified, although intuition s ̗gests that it might be significant. The potential increase in managerial efficiency gained from any elimination of annual fiscal justification must be compared with the potentially catastrophic results of a program fiscal error due to reduced oversight.

Congress did not intend to grant milestone-authorization liberally. [Ref. 3:p. 259] The Senate Armed Services Committee announced that milestone authorization would be given only after thorough review of the program and its alternatives. On the other hand, the SASC reported that if any milestone-authorization request was approved, "it will be equally diligent in minimizing further congressional interference as long as the program conforms to the program management baseline submitted with the request." [Ref. 3:p. 259]

C. DEPARTMENT of DEFENSE RESPONSE

A brief description of the initial DoD response permits analysis of the key factors that led to the demise of the DEP. The Under Secretary of Defense for Acquisition (USD/A), Richard Godwin responded to DEP legislation on 5 Jan 1987 in a memorandum to the SAEs (Appendix D). He requested each to recommend at least three programs to be considered as DEP candidates, although the law plainly stated ". . . the Secretary of a military department may designate any defense acquisition program . . . ." [Ref. ͜ :p. 3914] This USD/A memorandum quietly usurped the designation authority of the SAE.

No OSD-level guidance regarding which type of program to recommend other than the legislation was provided to assist the military departments in making their choices. USD/A required delivery of the response from the military departments to the Joint Requirements Management Board (now the Defense Acquisition Board) for approval within 10 days of receipt of the memorandum. [Ref. 32]

Additionally in this memorandum, USD/A Godwin directed each military department to nominate candidates for milestone-authorization from the DEP candidate list. He requested that the recommended milestone-authorization candidates have the following characteristics and advised the SAEs that recommendations which did not meet these criteria would not be accepted. [Ref. 32] He desired the candidates to:

1. be of the highest priority to the military department, OSD and Congress

2. have the full commitment of all three parties and

3. be relatively stable programs, facing, at most, limited technical risk

The services responded to USD/A Godwin's request by forwarding the following list of DEP candidates:

ARMY	NAVY	AIR FORCE
1. Mobile Subscriber Equipment (MSE)	5. Trident D-5 Missile	9. SRAM II Missile
2. ATACMS Missile	6. SSN-21	10. C-17 Aircraft

3. TOW II Missile	7. T-45 Training System T45TS	11. Medium Launch Vehicle (MLV)
4. AAWS-M	8. V-22 Aircraft	12. Titan IV Booster Rocket
		13. ATF

On 30 Mar 1987, nearly five months after the DEP law was enacted, DEPSECDEF Taft sent letters to the House and Senate Armed Services Committees (Appendix E) that designated the following ten Defense Enterprise Programs:

ARMY	NAVY	AIR FORCE
1. Mobile Subscriber Equipment (MSE)	4. Trident D-5 Missile	7. SRAM II Missile
2. ATACMS Missile	5. SSN-21	8. C-17 Aircraft
3. TOW II Missile	6. T-45 Training System (T-45TS)	9. Medium Launch Vehicle (MLV)
		10. Titan IV Booster Rocket

The memorandum also recommended Trident D-5, MSE and MLV as milestone-authorization candidates. Congress subsequently approved the Trident D-5 and MSE for milestone-authorization and provided the promised authorization stability in the 1988/89 National Defense Authorization Act. [Ref. 31:p. 8] Congress also included two programs not recommended by DoD. The ATACMS and T-45TS programs were also granted milestone-authorization in the 1988 National Defense Authorization Act.

It is noteworthy that every program approved by Congress for milestone-authorization subsequently exceeded its cost or schedule baseline within two-years. The ATACMS program breached its cost and schedule baseline in February 1989 and January 1990 because the of test delays. The Army's MSE program breached its cost baseline in January 1989 because of a reduction in the quantity to be procured which caused the unit cost to go up. The Navy T-45TS aircraft breached its cost and schedule baseline in March 1989 because of test deficiencies and delivery delays. The Trident D-5 broke its schedule baseline because of technical deficiencies. [Ref. 33:p. 4]

These deviations led Congress to rescind milestone-authorization for all programs in the 1991 National Defense Authorization Act. No other DEPs were submitted or approved for milestone-authorization after the initial request in 1987. [Ref. 5:pp. 264-5]

D. CHAPTER SUMMARY

Chapter III provides a description of the genesis of the DEP and a brief analysis of the DoD response. The initial DEP concept was based on program manager interviews conducted by Senator Dan Quayle and his staff and congressional testimony to the SASC subcommittee on acquisition policy. Senator Quayle introduced the DEP bill in response to program manager and acquisition community pleas for a reduction in excessive oversight as well as feelings in Congress that responsibility within DoD acquisition was too diffuse.

Congress intended to use DEPs as an experiment in applying management practices, proven in the commercial world, on DoD acquisition programs to try to reduce micromanagement and improve the link between program manager authority and responsibility. Unfortunately, the DEP concept degenerated from a simple experiment in managerial trust into an initiative that added administrative burden and potentially, some degree of financial risk of losing all obligational authority for those programs additionally designated as milestone-authorized programs. [Ref. 3:p. 257]

The DEP legislation included three major pillars to accomplish the intent of Congress. They were regulatory relief, streamlined management and milestone-to-milestone funding. The DEP was intended to provide regulatory relief by waiving all regulations, policies, directives and guidelines not based on the FAR, DFARS or statute.

Congress detailed line authority through a streamlined management structure in an attempt to eliminate oversight of superfluous layers of management. Managers could now avoid (theoretically) the imposition of oversight requirements by staff personnel with no responsibility for managing the program to cost or schedule baselines. It would and also allow Congress to affix responsibility for program results more easily on the program manager.

Milestone-authorization was intended to improve program fiscal and managerial efficiency by eliminating annual budget justification and by

allowing the program manager to make future plans with some degree of certainty that they would be carried out. Milestone-authorization was an optional feature of the DEP that did, however, result in additional administrative burden and increased program risk because of the potential for immediate loss of obligational authority. Deviation would also automatically suspend milestone authority at the beginning of the next fiscal year. In the worst case scenario, immediate, automatic suspension of all fiscal obligational authority of the program could result.

During initial implementation, USD/A usurped the statutory authority of the SAEs to designate DEPs at the military department level. Nearly five months after Congress authorized the DEP, DoD designated 10 programs and forwarded three of these to Congress for milestone-authorization. Congress granted milestone-authorization to two DoD recommendations and added two of their own choosing. All four programs subsequently exceeded their baselines within two years.

Many of the impediments to effective DEP implementation are identifiable. Analysis of these hindrances is essential so that future management teams may understand and avoid them while trying to implement reforms similar to the DEP. Chapter IV analyzes the execution of the DEP initiative and identifies pitfalls for future reforms.

IV. DEFENSE ENTERPRISE PROGRAM - RESULTS

> Weapons programs must now run a gauntlet of
> paperwork, which adds far more to cost than is saved by
> the safeguards. If this trend continues, we could expect
> that by the year 2000, not a single case of waste, fraud or
> abuse in weapon system acquisitions will be reported in
> the Air Force, and not a single weapon procured. Total
> control results in total immobility.
>
> -Colonel Gene Bartlow
> Air Force Deputy Chief of Staff
> for RD&A in 1986 [Ref. 12]

The military departments dutifully began to implement DEP procedures in the designated programs in 1987. However, many obstacles were encountered that led to the situation where many DoD acquisition staff believed that designation as a Defense Enterprise Program, as it was executed, ". . . provided little-to-no gains to participating programs in terms of efficiency and effectiveness." [Ref. 33:p. 14]

The Navy SSN-21 Seawolf program office did report some limited success with the program. This office utilized the regulatory relief provision of the DEP to set-aside regulations ". . . presumed to apply but, in fact, of little relevance". [Ref. 36] Analysis of this limited instance of successful implementation is provided in Chapter V.

Overall, the ". . . experience with DEPs to date has been less than successful in the eyes of the Services, DoD, and Congress." [Ref. 33:p. 1] In

1988, OSD requested the Institute for Defense Analysis (IDA) to review and report on the effectiveness of the DoD response to Packard Commission recommendations including the DEP. After completing analysis of recent DoD reforms aimed at streamlining the DoD acquisition process and interviews with acquisition personnel, IDA published a report titled "Defense Acquisition: Observations Two Years After the Packard Commission". It concluded that:

> Enterprise programs offer a useful approach for experimenting with alternative regulatory arrangements. They also offer an area where concrete progress might be made. However, even though Congress passed enabling legislation two years ago, not much has happened to permit DEP managers to operate in the way that the Packard Commission recommended. Relentless pressure from the Under Secretary [USD/A] appears to be needed to permit Defense Enterprise Programs to be used as test cases for Packard recommendations. [Ref. 2:p. VIII-14]

In July 1989, Secretary of Defense (SECDEF) Cheney's Defense Management Report (DMR) to the President again called attention to the absence of DEP success in achieving program fiscal or managerial improvements. In describing the potential advantages of using the management-by-exception principle, Cheney noted that DoD had not effectively utilized the DEP. He ordered:

> . . . the USD/A, with the SAEs [to] carefully select several new Defense Enterprise Programs from programs in the DAB's Concept Approval (post-Milestone I) phase, provide strong policy direction and oversight in implementing the DEP concept, and seek milestone authorization for such programs to enhance management stability. [Ref. 38:p. 12]

The Defense Enterprise Program Working Group, convened by USD/A in 1989, expressed concerns with revitalization of the DEP in a report issued soon after the release of the DMR. The group questioned the wisdom of pursuing

and reporting reforms in an initiative that applied only to a limited number of programs while other similar reforms sought to achieve similar benefits for DoD-wide programs. It was also concerned that an important advantage of the DEP, milestone-authorization, could not be implemented given the current turmoil in the budget. [Ref. 33:p. 4]

The report of this group helped stall the revitalization effort by concluding, with the concurrence of USD/A, that ". . . no new DEPs should be designated until the budget and force structure begins to stabilize, the DMR regulatory reduction effort is complete or at least the end result is known." [Ref. 33:p. ES2]

The SASC became disappointed with DoD attempts to implement the DEP. [Ref. 16] It chided DoD for ineffective pursuit of the potential benefits of DEPs, stating in the report on the 1992/93 National Defense Authorization Act that DoD:

> . . . has done nothing to implement either Defense Enterprise Programs or the milestone authorization process. Notwithstanding the promise in the Defense Management Review to make greater use of these authorities, neither of the Department's last two budget requests sought Defense Enterprise Program status or milestone authorizations for any program. The Department has informed the committee that there are no plans to implement or utilize these provisions to enhance the management process in the Department. [Ref. 5:p. 264]

The impediments to effective DEP implementation must to be understood. Careful analysis of the causes of DEP failure to provide the level of relief envisioned by its creators may enhance understanding of potential impediments to implementation. Understanding and avoiding these pitfalls

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may improve the opportunity for successful implementation and execution of future reforms.

Subsequent analysis shows that the DoD organizational environment encountered by the DEPs was not conducive to effective implementation or execution of the DEP charter. The DEP initiative experienced resistance to the execution of each of its pillars. [Ref. 2:p. VII-1]

Evidence presented in this chapter supports the hypothesis that a delay of policy guidance early in the implementation process and absence of effective DEP advocacy from above the program management level, hampered effective DEP implementation and execution. Additional factors contributed to the ineffectiveness of the DEP. Acquisition organization resistance to changes in the oversight process also threatened prospects for reduced regulation in mid- and upper-levels of acquisition management. [Ref. 2:p. V-4]

Early in DEP implementation, wide-spread confusion at the program manager level over which regulations were automatically waived contributed to ineffective DEP execution. This confusion delayed benefits to DEP-designated programs and resulted in misapplication of initiative intent by the Under Secretary of Defense for Acquisition (USD/A). [Ref. 33:pp. 1-2] The causes of DEP failure are discussed in the following sections.

A. IMPLEMENTATION ISSUES

Many circumstances and events had an impact on implementation and execution of the DEP. Analysis in the following sections indicates that DEP

effectiveness was significantly hampered by OSD choice of designated programs and by the absence of early implementing guidance. The political climate of the time and organizational resistance to change also contributed significantly to the demise of the DEP.

1. Program Selection

a. Large Cost

Interviews with personnel in DEP and acquisition management offices encountered the general opinion that relatively larger DEPs (ACAT I) attracted proportionately more attention and oversight than ACAT II or ACAT III programs. [Refs. 34, 35, 37, 39, 40] One explanation for the desire to maintain the existing level of oversight of large programs was the relatively large potential cost of errors. The 10 DEPs designated in 1987 were not optimal choices because they comprised a significant portion of the entire DoD acquisition budget. The DEP Working Group supported this hypothesis by adding its recommendation that the programs chosen for designation as a DEP ". . . should not be limited [to] the most expensive or 'lead' program in a service . . . because they attract the most outside interest." [Ref. 33:p. 7]

The large size of the designated DEPs generated resistance within the acquisition organization because of the increased risk of applying the unconventional managerial methods of the DEP. An error caused by reduced oversight of a large DEP would effect a significant portion of any military department budget. This risk induced organizational resistance that hindered

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effective execution of the "hands-off" or management-by-exception concepts contained within the DEP.

b. Late Designation

The relatively late stage in the acquisition process at which DEPs were designated was another factor that hindered DEP implementation, especially for milestone-authorized programs. Late designation of DEP concepts permitted less time for program efficiency benefits and monetary savings to accrue. The lack of tangible benefits, early-on, provided evaluators of this reform with reason to question the viability of the DEP. [Refs. 34, 41]

The SASC also expressed concern over the DEPs selected for milestone authorization. The SASC suggested that DoD might have chosen programs in development to achieve greater cumulative benefit. [Ref. 42:p. 19]

However, the initial guidance issued by the USD/A office conflicted with the SASC recommendation. The first DEP memorandum of USD/A Godwin (Appendix D) indicates the choice to restrict DEP designation to programs in the later acquisition phases where budget stability was higher and technical risk lower. [Ref. 32] This rationale seemed practical from the OSD viewpoint, especially when considering the experimental nature of the DEP. A trade-off was made between designating programs later in their acquisition timeline where program risk was lower but where reduced benefits would accrue and designation earlier where risk was higher but greater opportunity for benefits to accrue was present.

2. Paucity of Early Guidance

One study of the DEP indicated that the lack of early implementation guidance was an issue that contributed to the lack of DEP success. [Ref. 33:p. 4] Depending on the military department, DEPs were designated and executed for six months to one year with only the original statute, the SASC report on the 1987 National Defense Authorization Act and two confusing USD/A memorandums, available for guidance. The lack of early guidance left DEP managers to their own initiative to determine the method of implementing the DEP charter.

The USD/A implementing guidance that was provided to program managers conflicted with the DEP statute regarding automatic waiver of regulations. One USD/A memo indicated that all regulations would apply until reviewed and waived individually by USD/A. Program offices were, therefore, faced with the dilemma of rapidly implementing the revolutionary DEP concept while relying on confusing and conflicting sources for guidance.

Managers were unsure of the extent of their charter and hesitant to operate under the assumption that the full waiver authority of this initiative, as granted in law, was in effect. [Refs. 18, 22, 27, 34, 37] The unenthusiastic pursuit of DEP implementation may have allowed other factors including military acquisition staff resistance exert a negative influence on the development of the initiative. [Ref. 16]

Air Force implementing guidance came slightly more than one year after the DEP was authorized. [Ref. 43] The Air Force commenced a six month study to determine which regulations could be waived. Another six months elapsed while the Air Force staff determined which regulations would be waived.

One and one-half years Congress passed after the DEP statute, the Army and Navy issued their official guidance for DEPs. [Refs. 44, 45] The lengthy delays in providing military department guidance to the DEPs already designated delayed implementation of DEP concept. This reduced the benefits of regulatory relief in the early years. [Ref. 37] The lack of early success in regulatory relief for DEP managers also hindered DEP effectiveness.

The DEP reform lost momentum in the crucial years. [Ref. 18] The loss of interest allowed acquisition reform proponents the opportunity to support new initiatives. Without interest and high-level attention, chances for successful DEP implementation quickly ebbed [Ref. 2:p. V-4]

3. Political Environment

Two major political circumstances shaped the outcome of the DEP. General resistance to Packard Commission reforms hindered effective implementation and execution of the DEP initiative. Also, at the same time the DEPs were being instituted, the newly created position of Under Secretary of Defense for Acquisition was being established. The political struggle to collect

and consolidate power in the USD/A position interfered with DEP implementation.

a. Organizational Resistance

Some critics in DoD believe that the constant reform of the DoD acquisition system in the 1980's was too much for the organization to manage successfully. [Ref. 2:p. VII-1] They point to the overwhelming volume of acquisition transactions that occurred despite the inefficiencies in the system. Reluctance to tinker with the system that many believed was not "broken" caused resistance to implementation of improvements recommended by the Packard Commission, including the DEP. [Ref. 2:p. VII-4] [Ref. 18, 37]

Interviews conducted with DoD personnel by IDA two years after the Packard Commission still found ". . . no strong consensus on what the most importance acc 'isition problems were, or on their sources." [Ref. 2:p. VII-2] Disagreement over acquisition problems and their causes resulted in equally diverse solutions. Within the DoD organization, there are some that ". . . believe the system requires close oversight." [Ref. 2:p. VII-21] This belief naturally led to resistance to a reform like the DEP that called for less oversight. [Ref. 33:p. 2] Although not overt, this resistance may have contributed to what some term "DoD foot-dragging" in implementation of the DEP. [Ref. 16] The IDA study concluded that organizationa¹ resistance to DEP concepts hindered successful DEP implementation by con   ating to the delay

in generating implementation guidance by the military departments. [Ref. 2:p. VIII-3]

b. Lack of an Effective Reform Advocate

The DEP also suffered because it had no effective high-level proponent within DoD. [Ref. 2:p. V-4] The President did, however, vigorously support Packard Commission recommendations. He issued National Security Decision Directive 219 that outlined the "steps approved for implementation of the initial recommendations" and urged DoD to "move quickly and decisively to implement those changes approved [by the Commission]." [Ref. 15:p. 34] But, no one in a high-level position in DoD took specific responsibility for the DEP outcome in the crucial, early stage of implementation. [Ref. 2:p. II-11]

Research in the field of organizational change indicates that if a reform is to succeed, it must have a dedicated and highly-placed proponent that is willing to expend considerable effort to take the steps necessary to make the reform succeed. [Ref. 2:p. V-4] Emphasis and interest from above makes the reform more important to the executors and compels them to try harder to make the reform succeed. [Ref. 34]

The IDA report on of the status of Packard Commission recommendations identified the absence of a high-level advocate for the DEP initiative as evidence of a weak implementation effort. After lauding potential merit of the DEP, it commented on its virtual lack of success. The report noted the absence of a reform advocate within DoD and concluded that,

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"relentless pressure from the Under Secretary [USD/A] appears to be needed to permit Defense Enterprise Programs to be used as test cases for Packard recommendations." [Ref. 2:p. VIII-14]

Months later, Secretary Cheney, hoping to improve the effectiveness of the DEP, assigned direct responsibility for such advocacy. He directed USD/A and SAEs to ". . . provide strong policy direction and oversight in implementing the DEP concept . . . ." [Ref. 38:p. 12] Unfortunately, this high-level interest was not present during the early implementation stage when expectations of DEP success were formed. Early DEP ineffectiveness permitted those who resisted implementation to allege the uselessness of the reform, thereby sowing the seeds for its failure. [Ref. 16]

c. New Under Secretary of Defense for Acquisition Position

USD/A Godwin was unable to realistically assume the advocate role initially because the USD/A position was also under development. Congress appointed Richard Godwin as the first USD/A in September 1986, shortly before enactment of DEP legislation. Dedicated to making USD/A the focal point in determining DoD acquisition policy, Godwin bruskly attempted to bring about a major cultural change within DoD. He advocated a departure from consensus-building, decision making practices that were entrenched in the DoD organization. [Ref. 2:p. II-8] His new management approach relied heavily upon the more commercially-accepted, delegation of authority precept. [Ref. 2:p. II-9]

Understandably, the primary mission of the new USD/A was the management of the genesis of his own organization in all respects (politically, functionally, administratively, etc.,). Because this task consumed the vast majority of Mr. Godwin's time, he may have been unable to devote the political energy and attention the fledgling DEP needed to be successfully implemented within DoD. [Ref. 2:pp. II-9-11]

Analysis in subsequent sections indicates the overt attempts of the USD/A office to gather authority and influence over the acquisition organization. It also demonstrates the underlying intent to establish the power and authority of USD/A over military department acquisition organizations. The resultant power struggle interfered with DEP implementation.

Mr. Godwin resigned in September 1987 after a year-long struggle with the DoD organization to establish the USD/A position. He reportedly resigned because he believed DoD was not committed to bringing about desperately needed changes, and because he faced the unyielding resistance of the military departments to the empowerment of the USD/A position. [Ref. 2:p. II-10]

The HASC highlighted the shortcomings of Mr. Godwin that they believed precluded him from accomplishing his goal of redefining the DoD acquisition hierarchy. These shortcomings may also explain why Mr. Godwin was ineffective as a DEP advocate. The HASC concluded:

> Because Mr. Godwin came to his position without experience in either Pentagon politics or the hundreds of acquisition issues within his

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jurisdiction, he found himself at a disadvantage when dealing with his subordinate organizations and officials within the Department of Defense . . . Thus, Mr Godwin who intended to devote himself to constructing a new DoD acquisition system, found that he has to spend much of his time fighting to gain the authority needed to accomplish his tasks. [Ref. 2:p. II-11]

The untimely void in the acquisition hierarchy created by the departure of Mr. Godwin also left a void in DEP advocacy at a crucial stage of implementation. More importantly, the delegation of authority concept, the cornerstone of Mr. Godwin's acquisition policies and the DEP, was no longer the guiding principle that flowed from the leader of defense acquisition. [Ref. 2:p. II-10]

The new USD/A, Robert Costello, focused initially on smaller issues, unrelated to the DEP, such as manufacturing and industrial efficiencies. However, not all of his focus shifted from DEP concepts. He endorsed the pursuit of regulatory reform in an article describing 10 goals for improving defense acquisition. [Ref. 2:p. II-12]

Mr. Costello may not have been much more effective than Godwin as advocate because he was selected very late in the tenure of the Reagan administration. [Ref. 2:p. 62] His tenure as USD/A was expected to be short by the DoD organization. Interviews indicated that the acquisition community tended to "slow-roll" or stall his major reform initiatives while acting on the smaller ones for appearances only. [Ref. 35] Therefore, USD/A Costello was not able to provide effective support as a DEP advocate either.

4. Under Secretary of Defense for Acquisition Misdirection of Defense Enterprise Program Intent

Early USD/A involvement in the DEP had a crucial effect that contributed to its less-than-desirable outcome. Policy guidance in the early stages of implementation significantly altered statutory DEP procedures. Analysis of two major changes in the DEP concept instituted by USD/A reveals the struggle to centralize power and attempts to establish the new USD/A position. The USD/A office usurped the SAE statutory authority to designate DEPs, and then unilaterally altered DEP procedures. [Refs. 16, 34]

a. Assumption of Power

The first memorandum distributed by USD/A Godwin on the DEP (Appendix D) usurped SAE statutory authority to designate DEP programs. The last paragraph of the memo directed the SAEs to recommend DEP candidates. The term candidates indicates the intent to claim the power of DEP designation for the USD/A position. The memo required the SAEs to submit at least three candidate programs from their military departments to the Joint Requirements Management Board (now Defense Acquisition Board), which was controlled by the USD/A. [Ref. 32] This overt power maneuver went without significant challenge by the military departments, for reasons that are not well understood.

b. Procedural Modification

The second and more important action instigated by USD/A in the early phase of the DEP was major modification of statutory DEP

implementation procedures. In a memorandum to the military department secretaries on 27 April 1987 (Appendix F), USD/A Godwin announced the programs he designated as DEPs and those recommended to Congress for milestone-authorization. The memo also forwarded USD/A "Guidelines for the Management of the Defense Enterprise Programs" as an attachment.

This USD/A memorandum ignored the DEP statutory edict authorizing automatic waiver of all regulations, policy, rules and guidelines (excluding statute-based rules). USD/A unilaterally required the SAEs to identify every regulation, directive, guideline and policy that would and would not apply to DEPs. Additionally, USD/A required a formal assessment of the organizational benefits that would be derived from each regulatory waiver request within 45 days. In effect, this requirement created more paperwork for a initiative that was supposed to cut red tape. Even though USD/A Godwin advocated delegation of authority, this action indicates that he desired centralized oversight and control of acquisition programs. [Ref. 46]

It is crucial to note the effect of this policy change. USD/A shifted the burden of proof for each regulatory waiver request to the SAEs and, ultimately, program management offices. Essentially, the USD/A instituted a disincentive system that ultimately condemned the DEP to failure by requiring extra managerial work and burden to gain each regulatory waiver.

The final result was imposition of further burden on the very personnel the law intended to unburden! This policy change was challenged

by the military departments. Each military department Secretary subsequently, albeit late, provided his own guidance for DEP procedures.

The ensuing debate and struggle for control between the military departments and USD/A resulted in further confusion at the program management level. This confusion left execution of the DEP in a state of paralysis that contributed to the overall ineffectiveness for the initiative. [Refs. 22, 27, 34]

In the end, USD/A won the battle over the applicability of regulatory waivers. In the 1988/89 National Defense Authorization Act, Congress confirmed the waiver authority of the USD/A over the military departments. This Authorization Act amended the regulatory provision in the original DEP statute that provided regulatory relief "except as specified by the senior procurement executive of the military department concerned" by adding the phrase "with the approval of the Under Secretary of Defense for Acquisition" to the end of the sentence. [Ref. 48:p. 1125] This was reportedly done in an attempt to show congressional support for USD/A Godwin as he tried to establish the new USD/A position. [Ref. 47]

Analysis of subsequent military department implementation memoranda indicate that the SAEs maintained authority to waive only military department regulations while USD/A maintained authority to waive DoD-level regulations. This effectively split the responsibility for regulatory waiver and complicated the regulatory relief provision. [Refs. 44, 43, 45]

Confusion over whether waiver of regulations needed to be justified instead of waived automatically, and questions about who maintained waiver authority over which regulations, may have made program managers reluctant to apply the full statutory waiver authority of the DEP provisions. [Refs. , 34] This conservative application of the regulatory provision reduced benefits for the programs. The minimal amount of regulatory relief obtained in the early stages of implementation contributed to the dwindling of DoD interest in DEPs. [Ref. 39] Problems with each of the DEP pillars also frustrated DEP execution.

B. REGULATORY ISSUES

The majority of staff interviewed in program and acquisition management offices in research for this thesis in 1992 indicated that designation as a DEP provided little or no real regulatory or reporting relief. They reported almost all of the existing regulations still apply to programs despite the waiver supplied by the congressional authorization committees (except those based in statute). [Refs. 18, 22, 27, 34, 35]

Two major regulatory issues hindered the effective execution of the DEP. The existing regulatory framework was a morass of multi-tiered references and complex interrelationships. This made it very difficult for the USD/A, SAEs and program managers to determine which regulations were and were not based in statute and, therefore, were eligible for waiver. [Ref. 2:p. V-3] The DEP did not permit waiver of regulatory requirements based in statute,

whichever DEP implementation procedure was used (automatic or justified waiver of regulations).

Once a determination was made by the military departments of which DoD-level regulations were eligible for waiver, it was necessary to decide if a waiver was desired. An advocate for every "waiverable" regulation inevitably appeared, challenging requests to eliminated "vital" regulations. [Ref. 2:p. V-4] The unilateral USD/A requirement for SAEs and program managers to justify their requests for waiver of each regulation and provide an analysis of the expected benefits was a disincentive to pursue any waiver at all.

Each military department began to develop guidance for DEP implementation. The military department-level guidance that followed provided lists of military department-specific regulations that were waived.

1. The Air Force Approach

The Air Force led the way in developing a method of determining which rules and regulations were based in statute. It contracted consultants and assigned members of its own military department to conduct a study of the existing regulatory framework. The goal was development of methods to facilitate the identification of rules and regulations eligible for waiver.

The study produced a computerized, acquisition regulation, data base. This computerized system determined the relationships between each regulation and the FAR, DFARS, Air Force acquisition regulations and existing statutes. [Ref. 49:pp. 1-2]

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This tool was used to review and analyze approximately 2000 acquisition references and 300 interrelationships of DoD and military department regulations and legal statutes. Although developed to support Air Force DEPs, this data base was capable of being expanded to include the regulations of other military departments as well.

This data base was truly helpful to the Air Force and DoD for determining which statutes were based in law. [Ref. 34] Unfortunately, it took more than six months to develop. Another six months passed before the Air Force review of the eligible regulations was complete. Only then were Air Force DEPs provided with concrete guidance on which Air Force regulatory waivers were authorized.

The Air Force Acquisition Executive granted waiver for roughly two-thirds of the Air Force regulation waiver requests. In the implementing memorandum, he also expressed his personal disbelief that:

> we have identified all the regulatory requirements that can and should be eliminated . . . [I] request each DEP program director and PEO to review the remaining regulatory requirements . . . with the purpose of further reducing regulatory requirements impeding effective program accomplishment. [Ref. 43]

The delay in implementing this major pillar delayed the ability of Air Force DEPs to achieve fiscal and managerial benefits. This contributed to the early impotence of the DEP.

2. The Army Approach

The Army did not undertake a similar regulatory study [Ref. 2:p. V-4]. However, when the Army published implementing guidance nearly one-year after Army DEPs were designated, it came closest to instituting the genuine intent of Congress and the DEP statute.

The implementing guidance of the Army provided blanket waiver of all Army regulations, policies, directives and administrative rules eligible under DEP legislative guidelines. The Army FAR Supplement and subordinate supplements were specifically included in the waiver. [Ref. 44] The blanket waiver of the Army comes closet to implementing the true intent of Congress to grant regulatory relief. However this was partially ineffective bec use most DoD-level regulations continued to apply.

The Army implementing memorandum also changed ". . . the burden of proof as to whether any existing regulation herein waived necessarily derives from law, FAR or DFARS and therefore remains applicable to the DEP, will fall of the proponent of the requirement . . . ." [Ref. 44] Furthermore, the Army Acquisition Executive directed program managers to "challenge" regulations and procedures in a proactive attempt to unburden the program manager and institute their perception of the intent of the law. [Ref. 44]

3. The Navy Approach

The Navy approach was quite different. The Navy commenced a study in May 1987 to determine which regulations it could and would waiver. The

study unfortunately focused only on required reports. It concluded that, of the 22 most common reports, 13 were required by law and 3 by the FAR or OMB circular. The Navy study reported that ". . . of the remaining 6, 4 are decision documents that are so useful to our program managers that they feel they would prepare and utilize them even if they weren't required." [Ref. 50] As a result, Navy DEPs experienced virtually no regulatory relief. [Ref. 21, 37]

The Navy implementing memorandum, published nearly one-year after its DEPs were designated, specifically required continued submission of many of the large reports and reviews. Initial relief for Navy DEPs, provided in the implementing memorandum, consisted of the "promised" benefit of having their review process of the required acquisition documentation shortened. [Ref. 45] The bulk of the Navy implementation memorandum focused on revising the format of the Selected Acquisition Report (SAR)--a document required by statute!

4. Outcome of Department of Defense-Level Waiver Requests

Waiver requests at the OSD level did not fare as well. Interviews with USD/A staff indicated that when requests of waiver of OSD-level regulations were forwarded by the military departments, functional advocates also came forward to defend the appropriateness of every regulation. [Refs. 18, 34] Other research also found that ". . . every waiver was opposed by at least one member of the . . . staff." [Ref. 2:p. V-4]

Resistance to each regulatory waiver at the DoD-level made it difficult for DEP managers to obtain waivers. [Ref. 39] This resistance was clearly at variance with the law which waived all regulations not based in statute in the FAR or DFARS. Because many of the regulations waived at the military department level were required at the OSD level, the limited application of the regulatory relief provision, inconsistent with the statute, did not allow enough fiscal or managerial benefit to accumulate for DEP management offices to make the program a success.

An additional concern regarding audits of programs and the relationship to the regulation system came to light during interviews with program management staff. Interviewees expressed concern over auditor/inspector findings and recommendations forwarded in the final reports. Interviewees expressed concern that a DEP, benefitting from regulatory waiver, might later exceed their budget baselines. They feared that auditors would point to the regulatory waiver as the cause for the deviation. They were unsure whether this would reflect poorly on the program manager who requested the regulatory waiver. [Refs. 21, 27, 34] This incentive to maintain existing regulatory requirements helps explain the reluctance of program managers to request waivers of regulations in potentially risky areas of their programs. The understandably conservative application of waiver authority by the program manager led to conservative fiscal and managerial benefits for the programs.

C. REPORTING ISSUES

The Packard Commission recognized that program managers had become buried under excessive layers of management. They recommended that ". . . by trimming the layers of management to a maximum of four and having the program managers take direction from this short line of command only . . . they would receive more definite decisions more rapidly, they would have fewer diversions, and they could give greater attention to program management." [Ref. 2:p. 60]

Results of research on implementation of Packard Commission recommendations determined that, although theoretically sound, the military departments were not able to execute the streamlined chain-of-command envisioned by the Packard Commission members or DEP originators. Program managers received virtually no reporting relief from DoD institutionalization of the streamlined chain-of-command concept. [Ref. 2:p. 66]

The streamlined management pillar of the DEP also attempted to institute management-by-exception principle in DoD acquisition programs. Institutionalization of management-by-exception was intended to allow managers to execute their programs between milestone without significant oversight interruptions from DoD, the military departments or Congress.

Oversight reporting requirements continued to include periodic reviews, briefs, and requirements to check decisions through various staffs and higher levels in the chain-of-command for concurrence. It also included reports to

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higher levels of management that detailed the managerial execution of a program.

1. Streamlined Management Not Fully Implemented

In 1989, USD/A John Betti reached the conclusion in his attempt to revitalize the DEP that the streamlined management structure was not effectively implemented within DoD. He noted that ". . . streamlined management and reporting [was] written into program structures but not practiced. In most cases, DEPs received more scrutiny rather that less." [Ref. 4]

DEP managers were faced with the dilemma of implementing the streamlined management/reporting relief pillar of the DEP into the organizational culture of the DoD acquisition system. Although streamlined management existed for DEPs as a concept, thesis interviews indicated that a "shadow" or unofficial line-of-communication paralleled the experimentally streamlined chain-of-command instituted by the DEP statute. [Refs. 18, 21, 27, 34, 35, 37] A shadow line-of-communication is a duplicative unofficial reporting chain that is usually based on informal oversight requirements. This unofficial chain formed in response to organizational resistance to reduced oversight. The existence two reporting chains created a great deal of ambiguity as to the lines of authority and responsibility for a program management office. [Ref. 2:p. 62]

The report published by the Institute for Defense Analysis commented that the DoD streamlining efforts had:

. . . failed to achieve the desired improvement; one major cause of this failure is that the attempts at streamlining were conducted with far too much concern about disturbing the current organization. Consequently, relationships, responsibilities, and authorities have changed very little. Few people, if any, have been removed from the process, and program managers do not consider their tasks any less difficult . . . it appears that the lack of improvement seems attributable to less-than-adequate implementation efforts--much more could be done to streamline the system. [Ref. 2:p. 60]

Implementation of the streamlined management structure overlaid the existing reporting and management structure. This had the perverse effect of increasing reporting requirements for the program manager. [Ref. 2:p. 62] It is postulated that the ambiguity of authority and resultant increase in workload was a significant flaw in DEP execution.

Some of the existing reporting requirements came from staff above the program management level in the "shadow" line-of-communication. Their "direction" and guidance came in the form of requirements, often focused on obtaining compliance with one particular aspect of a program while disregarding the multitude of complex trade-offs usually required to satisfy the unofficial requirement. [Ref. 2:p. 62]

The streamlined management structure mandated by DEP legislation was generally ineffective in reducing the number of reports requested. Program managers indicated that they often satisfied reporting requirements that were not formally required rather than challenging their validity ". . . because it is not clear what authority these people have." [Ref. 2:p. 62]

Despite DEP procedures calling for institutionalization of streamlined management and annual PEO performance evaluation of the program

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manager, the upper layers of military department and DoD management had informal power to maintain the same oversight requirements that existed before DEP implementation. DEP managers may have been given an incentive to permit the "shadow" line-of-communication to exist, despite the law, because the continued career success (promotion) and future assignments of military managers was controlled exclusively by upper-level, military department management.

The inevitability of future conflict within the "organization" meant that it was not in the best interests of program managers to "rock-the-boat", insisting upon reporting only via the streamlined reporting chain mandated by DEP legislation. [Refs. 18, 22, 27] This presented the manager with a great deal of incentive for cooperation with requests to maintain existing oversight requirements and to apply a loose interpretation of the streamlined, chain-of-command concept.

The inability to streamline management to reduce program reporting requirements made acquisition personnel question the validity of continuing pursuit of the DEP initiative. [Ref. 16, 34, 41] Degeneration of the DEP support base within DoD contributed to the general attitude that the DEP might not be capable of working.

2. Resistance to Reduced Reporting Oversight

The program managers and supporters of the oversight and reporting status quo had incentive to resist execution of the streamlined DEP reporting

chain-of-command. The defenders of maintaining existing reporting requirements were fearful that programs might get out of control if oversight reporting was eliminated. [Refs. 16, 35] For this reason, oversight advocates actively sought to maintain requirements by objecting to their removal at every stage of the process. Program management, on the other hand, enjoyed the "protection" of implied consensus that extensive reporting provided and, therefore, had incentive to at least passively resist reducing reporting oversight requirements. [Refs. 16, 18, 34, 35]

DEPs were an experiment to fully apply the management-by-exception principle in DoD acquisition programs. They were dedicated to the "elimination of duplicative or unnecessary functions and management layers and to the achievement of substantial reductions in overall staffing." [Ref. 38:p. 10] However, many of the reporting requirements managers suggested for waiver were mandated by law and ineligible for elimination. [Ref. 2:p. VII-4] The lack of success in reducing the burden of program reporting requirements contributed to the uncertainty of DoD about the continued viability of the DEP.

The commitment of Congress to management-by-exception principles also was unclear. While one faction of Congress was trying to reduce the burden of the control over program management, another continued to expect DoD management to maintain the same detailed knowledge of acquisition programs as before. [Ref. 34] Mid-management may have resisted reduced

reporting especially since DoD executives and Congress were unaffected by the reduction. Because of this divergence of congressional preference, management above the program manager level resisted attempts to reduce the information they received.

The Defense Management Report highlighted the degree of congressional micromanagement. It reported that members of Congress request or make:

> Every working day . . . on average almost 3 new General Accounting Office (GAO) audits of DoD; an estimated 450 written inquiries and over 2,500 telephone inquiries from Capitol Hill; and nearly 3 separate reports to Congress each averaging over 1,000 man-hours in preparation and approximately $ 50,000 in cost. In addition, senior DoD officials spend upwards of 40 hours preparing for the 6 appearances as witnesses and the 14 hours of testimony that they provide on average for each day Congress is in session. [Ref. 38:p. 27]

An effective reduction in oversight at the program management level might be accomplished without reducing the requirement for some parts of DoD management to collect and maintain detailed data on acquisition programs. However, the DEP was not effective in reducing oversight because it did not limit the reporting and o·ersight requirements of DoD management to, in turn, satisfy requests for information from organizations outside DoD, e.g., GAO, CBO, Congress.

Also sensitive to attempts to institute streamlined management and a reduce program reporting under the DEP were DoD budget officials. Budget execution has a broad effect on DoD acquisition programs. The sensitivity of the DoD comptroller was due in part to the relative size and dynamic nature of the budget for the DEP's. Improper program budget execution can result in

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criminal prosecution under the Anti-Deficiency Act. Detailed, up-to-date fiscal reporting is required to prevent errors. This may explain financial community resistance to implementation of reduced reporting requirements under the DEP.

Program management offices also had incentive to passively resist institutionalization of streamlined management and reduction in reporting requirements. Although reporting requirements definitely increase administrative burden, some program management officers might have considered reporting requirements an advantage. [Ref. 16] Reporting requirements spread some small portion of program responsibility to their superiors who received the reports, reviews or briefings granting tacit approval. Program management offices had incentive to involve the higher levels of management in their responsibility so that there might always be someone else, partially responsible by virtue of a brief or having received a report, to share the blame if something went wrong with the program. [Refs. 16, 21, 34, 35]

D. MILESTONE-AUTHORIZATION ISSUES

Funding stability can improve managerial efficiency. [Ref 38:p. 10] Even members of Congress acknowledge that future fiscal stability can lead to improvements in execution of acquisition programs. [Ref. 51:p. 744] However, fiscal stability is difficult to implement within DoD especially since the PPBS function lies outside prerogatives of the streamlined, chain-of-command.

Milestone-to-milestone authorization of DEPs was a short-lived concept. Milestone-authorization commitments for four programs (T-45TS, TRIDENT D-5, MSE, ATACMS) were granted in the 1988-89 National Defense Authorization Act. Milestone-authorization was rescinded for all four programs less than three years later by Congress in disappointment due to the perception of poor DoD execution of this initiative. [Ref. 39:p. 482]

Milestone-authorized DEPs observed little improvement in managerial efficiency from their intended reprieve from justifying and defending budget submissions because Congress failed to provide milestone-appropriations to accompany the milestone-authorization. [Refs. 18, 39] The disappointing outcome of the initial four milestone-authorized DEPs soured DoD and Congress on this concept. [Ref. 16]

1. Inappropriate Program Selection

The DEPs chosen for milestone-funding may have been poor choices. USD/A Godwin disregarded staff advice and allowed major acquisition programs to be chosen for his initial recommendations for milestone-authorization. By selecting relatively high cost programs, he generated substantial resistance from factions within DoD that significantly hindered execution of this pillar and, therefore, harmed effectiveness of the DEP in general. [Ref. 34]

The DEP Working Group supported the assertion in its study of the DEP that the initial programs selected were too large. It reported, ". . . there was a

general feeling that major defense programs may not be the best pool to pick DEPs from because of their high visibility and the high dollar values involved that would have to be stabilized." [Ref. 34:p. 10]

Funds of milestone-authorized programs were "fenced" or protected over a specific period of time. The funding profile was tied to spending levels predicted in the program baseline. Changes to the funding profile of a milestone-authorized program could only be changed by congressional action.

As noted earlier, fiscal stability may produce an increase in managerial efficiency. However, in times of declining budgets such as the late 1980's, stabilizing the future funding profile of a program in law might cause an even greater budgetary impact on non-protected programs. This was an important factor that contributed to resistance within DoD.

Non-protected programs would be required to absorb more than their "fair" share of budget decrement during a general budget decline while protected programs escaped without any loss of funding. "Fencing" programs also restricted DoD and military department ability to redirect and control their respective acquisition strategies in response to the changing budgetary environment.

Two of the milestone-authorized programs, T-45TS and ATACMS, were not even recommended by the military departments or DoD as candidates for milestone-authorization. A member of SASC staff reported that these two programs were designated by Congress to overcome DoD "foot-dragging" in

an attempt "to push the initiative along." [Ref. 47] These two congressionally selected programs also proved to be inappropriate choices because they involved greater technical risk than was initially assessed. Each eventually exceeded their budget baselines.

Initial underestimation of the technical risks some milestone-authorized programs caused decision makers to choose inappropriate programs. Subsequent baseline deviations of all milestone-authorized DEPs may have caused the initiative to lose credibility as a functional reform by attracting negative attention.

2. Baseline Deviation Procedures

All four programs deviated from their baselines within two years of their milestone-authorization. This triggered the requirement for Secretary of Defense action to conduct a significant review of the program. This burdensome procedure added a great deal of work to program management offices that already were experiencing trouble.

Some program management offices eventually resented milestone-authorization status because of the additional administrative workload imposed on them by events, beyond their control, e.g., budget breaches due to technical difficulties. [Refs. 22, 27, 40] Status as a milestone-authorized DEP was the sole cause for the additional workload.

DEP status also made it possible, under special circumstances, for programs to face automatic, instantaneous loss of fund obligation authority.

At the very least, programs that deviated from their baseline had their milestone-authorization privilege automatically withdrawn for the next fiscal year. The baseline-deviation process proved to be "so painful" for the DEP managers, military departments and OSD that USD/A chose to let this reform opportunity "die on the vine" after the initial attempt. DoD did not submit any additional milestone-candidates after the initial set. [Refs. 18, 33, 34]

Another factor that contributed to the general demise of the milestone-authorization concept was the failure of Congress to grant greater flexibility to these programs. [Ref. 40] Congress authorized some, but not enough, flexibility for milestone-authorized DEPs in the 1988/89 National Defense Authorization Act by applying the same baseline flexibility criteria as "normal" programs to milestone-authorized DEPs. [Ref. 48:p. 19] The reluctance of Congress to extend even greater baseline flexibility to these experimental programs limited the potential benefits to those enjoyed by non-designated programs. It did, however, impose a penalty in the case of baseline deviation for milestone-authorized programs that did not exist for non-designated programs. Program managers viewed that the benefits of the milestone-authorization "privilege" did not outweigh the cost.

3. Failure of Congress to Provide Appropriation

Milestone-authorization might have been a positive step toward increasing managerial efficiency through fiscal stability. Unfortunately, although the funding profiles of designated programs were fully <u>authorized</u> to

the next milestone, appropriations were still defended, debated and approved annually. The absence of milestone-appropriations to accompany milestone-authorizations prevented the program manager from making or committing firm plans because, ultimately, the amount of funds appropriated for his program determined how much he could obligate in the future. Only when armed with the appropriated amount could he establish future plans with certainty.

The intended DEP benefit of reducing the number of program reviews was not realized. Military department and DoD-level budget submissions and reviews were still required for milestone authorized programs to satisfy requirements of the budget process and congressional appropriation committees. Therefore, little budget preparation reprieve was provided to the milestone-authorized programs. [Refs. 34, 40, 49] Because the DoD acquisition organization realized that there was little managerial or fiscal benefit and a substantial amount of potential burden and risk due to baseline breach, its support for milestone-authorization of DEPs quickly disappeared.

E. CHAPTER SUMMARY

Interviews with program and acquisition management staff acknowledged that DEP concepts provided little-or-no improvement in managerial or fiscal efficiency. Chapter IV highlighted the causes of the DEP failure to achieve the expected outcomes.

Initial lackluster DEP results contributed significantly to the downfall of the DEP initiative. Early ineffectiveness caused acquisition personnel with positive expectations for DEP success to become discouraged and lose interest in the reform. Little incentive existed for program staff to pursue the reform because it provided very little benefit in return for their effort. This loss of interest and lack of benefits were major contributors to the failure of the DEP.

The environment in which DEPs were established also hampered their effectiveness. The causes of lackluster DEP performance appear to fall into four broad problem categories:

1. Implementation failures by the DoD acquisition leadership

2. Regulatory reform resistance

3. Reporting reform resistance

4. Congressional failure to provide milestone-appropriation

Each program chosen for DEP and milestone-authorization designation was a major acquisition program (ACAT I) and generated significant resistance to reduced oversight by virtue of large program cost. Programs were also designated relatively late in the acquisition cycle. Late designation prevented full DEP benefits from accruing during the life of a designated program.

The DEPs were designated with very little implementation guidance. Implementation instructions that were provided conflicted with the DEP statute. This forced DEP managers to execute their programs while unsure of which, if any, regulations were to be waived.

Organizational resistance to the DEP principles also hindered implementation. Effective, high-level advocacy for the DEP might have helped overcome resistance. Unfortunately, USD/A Godwin was unable to assume this role and effectively assist because he was preoccupied with establishing personal credibility and the USD/A position within the DoD hierarchy.

Misdirection of DEP intent while Mr. Godwin was USD/A significantly hindered DEP implementation. USD/A guidance ignored the DEP statute that authorized automatic waiver of DoD regulations and required the SAEs to identify every regulation that would and would not apply. It also created a disincentive for successful DEP execution by switching the burden of proof for the decision to grant regulatory waivers from the regulation advocate to the SAE and ultimately, the program manager. This disincentive may have caused the failure of regulatory relief provision of the DEP.

Further, fiscal benefits or improvements in managerial efficiency from regulatory waivers were delayed by DoD and military department difficulty in determining which regulations were and were not based in statute. Finally, when a regulation was determined to be eligible for waiver, parochial interests in the DoD acquisition community objected to its elimination. The success of the organizational resistance to reduce oversight successfully reduced the fiscal and managerial benefits of the regulatory relief provision.

Disincentives for institutionalizing streamlined management and management-by-exception principles in DEPs also contributed to its ineffective

implementation and lack of benefits. Incentives may have existed for the program manager to tolerate the redundant, "shadow" line-of-communication that developed and its "requests" to maintain existing reporting requirements. The existence of two parallel reporting chains fostered ambiguity of authority, added work for program managers and frustrated the intent of streamlining the chain-of-command relationships.

Budget baseline deviations in milestone-authorized DEPs damaged the credibility of the milestone-authorization reform and added significant burden to the military department and program manager. Ultimately, the failure of this aspect of the DEP may have provided the greatest disappointment to DEP supporters. Some staff in DoD resisted the milestone-authorization concept because it protected ("fenced") program funding for selected DEPs. The fact that the funding of these programs was protected would mandate a larger than normal effect on the budgets of non-protected programs during periods of budget decline.

Congress contributed to the ineffectiveness of the milestone-authorization experiment by failing to provide milestone-appropriations to accompany milestone-authorizations. Finally, Congress failed to provide additional baseline flexibility to program managers as incentive for the additional risk taking.

Chapter V extends the analysis of this chapter to determine the viability of using DEP concepts in the future to accomplish acquisition reform goals.

V. FUTURE VIABILITY OF DEFENSE ENTERPRISE PROGRAM CONCEPTS

> The Under Secretary should aggressively support Defense
> Enterprise Programs as a vehicle for experimental changes
> in regulations. Enterprise programs offer a useful
> approach for experimenting with alternative regulatory
> arrangements.
>
> --Institute for Defense Analysis
> [Ref. 2:p. VIII-14]

Chapter IV analyzed the important issues related to DEP implementation

and execution. This chapter explores whether utilization of some of principles

embodied within the DEP is a viable option to improve acquisition efficiency.

A. DESCRIPTION OF THE NEED

1. Regulatory

It is likely that a need will always exist to achieve greater managerial

efficiency in compliance with regulatory requirements. A recent study of the

excessive burden of regulatory reports conducted by the Center for Naval

Analysis (CNA) concluded that:

> . . . indeed, the problem is real. Documentation and reporting requirements
> impose a significant workload burden. In NAVAIR, for example, nearly 20
> percent of the available, in-house man-years and 30 percent of senior
> management's time are devoted to the paperwork burden. [Ref. 52:p. iii]

The study also reported that, on average, each program office of each

military department spends roughly two and one-half man-years preparing

documentation and reports in the life of a program (one man-year equals 2,080 hours of work by one person). [Ref. 52:p. 5] The CNA researchers also interviewed senior program managers, asking them to estimate the percentage of their time spent in preparation and review of documents and reports. The program managers estimated that, not counting internal military department briefings, POM/budget drills or pre- and post-DAB actions, they spent more than 16% of their time preparing and reviewing documents and reports. [Ref. 52:p. 6]

The regulatory relief pillar of the DEP was designed to reduce burdens such as those noted above. Implementation of a regulatory reform similar to the DEP would help eliminate non-value added, non-statutory based regulations and reduce the costly burden reported by CNA. Elimination of these regulations could reduce the time and money managers waste on conforming with unnecessary requirements. It is in this regard that DEP concepts may still be needed as a "useful approach for experimenting with alternative regulatory requirements." [Ref. 2:p. VIII-14] Events subsequent to the original DEP initiative in the late 1980's may have reduced the necessity to experimentally apply the streamlined management and milestone-to-milestone funding pillars of the DEP throughout DoD.

2. Streamlined Management

The DoD Inst 5000.series, published nearly one-year after the DEP was authorized, created the framework for institutionalizing the same streamlined

reporting chain-of-command concept throughout DoD that was utilized by the DEP (PM-PEO-SAE-DAE). [Ref. 53:p. 13] Implementation of the DoD Inst 5000.series and DEP-streamlined reporting chains-of-command occurred concurrently in DoD programs and DEP from 1988 onward. Streamlined reporting chains-of-command are now in-use throughout DoD for all major acquisition programs. Because this chain-of-command is now in place, it obviates the need to continue experimentation with streamlined management in DEPs.

3. Milestone-to-Milestone Funding

Milestone-authorization is another reform that reduces justification for revitalization of the DEP. Milestone-authorization did not significantly improve managerial efficiency partially because milestone-appropriation was not granted by the House or Senate Appropriations Committees to accompany DEP milestone-authorization.

The DEP concept of increasing the fiscal stability of acquisition programs was only partially fulfilled. Milestone-to-milestone authorization alone was able to provide very little increase in managerial or fiscal efficiency without the corresponding appropriation. [Ref. 2:p. 62] Program managers were "unable to make a real 'contracts' for program stability" partly because Congress failed to provide the complete funding package (authorization and appropriation) that program managers needed to successfully plan. [Ref. 52:p. 11]

Interviews with program management and acquisition staff indicated that, in the reality of program execution, milestone-authorization is worth little without the milestone-appropriation to accompany it. [Ref. 18, 34, 37, 40]

Congress acknowledged some of the benefits that multi-year funding provide in the 1986 National Defense Authorization Act. Congress explained that, ". . . the programs and activities of [DoD] could be more effectively and efficiently planned and managed if funds for the Department were provided in a two-year cycle rather than annually." [Ref. 51:p. 744] Despite this acknowledgement, many in the congressional budget process still resisted implementation of milestone-appropriation of DEPs "since it takes away a great deal of the annual 'flexibility' of both the legislative and executive branches." [Ref. 1:p. 112]

The Packard Commission dismissed this argument against multi-year funding, contending that, ". . . national security objectives and priorities, however, ordinarily do not change appreciably from year to year, nor should military strategy or the military force structure change radically over a two-year period." [Ref. 15:p. 25] The Commission further explained that tools were already in place to provide the flexibility to accommodate unforseen events. It identified reprogramming, supplemental appropriations and budget amendment procedures as adequate tools for modification of the budget available at any time. [Ref. 15:p. 26]

Despite the logical nature of the arguments presented for and against providing milestone-appropriation, according to J.R. Fox in The Defense Management Challenge, ". . . objections based on political considerations matter most, and, unfortunately, these are powerful." [Ref. 8:p. 96]

Most of the resistance to supplying milestone-appropriation comes from Members of the House of Representatives because they are elected for two-year terms. Proposals to shift to a multi-year funding cycle generates resistance because it restricts House of Representatives influence and input on the DoD budget. It is recognized that annual appropriation provides:

. . . powerful tools for controlling the Defense Department. . . .

Because the defense budget represents approximately 65% of the discretionary spending in the entire federal budget, congressmen advocating domestic programs would find it unacceptable that in half of the two year period, defense spending would be untouchable. [Ref. 8:p. 97]

Congressional resistance to providing milestone-appropriation contributed to the failure of Congress to provide the complete funding package for milestone-authorized DEPs. [Ref. 16] This was one of many reasons for the inability of the milestone-authorization concept to achieve successful results in DEPs.

The following analysis indicates that continued experimentation with DEP concepts may lead to reduced regulatory requirements allowing program managers more time to concentrate on management. Subsequent sections of this chapter analyze congressional support for future DEP experimentation and

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the attitudes within DoD that will ultimately determine the viability of the DEP to achieve regulatory relief.

B. CONGRESSIONAL SUPPORT

The Armed Service Committees of both houses of Congress provided the majority of congressional involvement with the DEP. Future viability of DEP concepts will depend on their continued support to lead Congress toward acceptance of DEP principles.

The Senate Armed Service Committee (SASC) provides the majority of support for the DEP within Congress. This committee recently called attention to ineffective DoD utilization of the DEP in their report on the 1992/93 National Defense Authorization Act. DoD was chided for doing:

> . . . nothing to implement either Defense Enterprise Programs or the milestone-authorization process. Notwithstanding the promise in the Defense Management Review to make greater use of these authorities, neither of the Department's last two budget requests sought DEP status or milestone-authorization for any program. The Department has informed the committee that there are no plans to implement or utilize these provisions to enhance the management process . . . . [Ref. 5:pp. 264-5]

This same report also explains congressional repeal of milestone-authorization for the milestone-authorized DEPs in the FY 1991 National Defense Authorization Act. The committee explained its disappointment, noting that milestone-authorized DEPs provided "no benefits, but imposed additional reporting and management requirements on program managers. For that reason, the Congress repealed those authorizations." [Ref. 5:p. 265]

While clearly noting disappointment with DoD execution of the milestone-authorization pillar of the DEP, the committee reaffirmed its belief that DEP concepts could provide benefit to DoD. It prodded DoD to reapply the program explaining that:

> . . . repeal [of milestone-authorization] does not reflect a lack of support of the [DEP] concept, but does reflect a desire not to burden program managers when the acquisition leadership in the Department will not implement a needed reform.

> The committee continues to believe that the Defense Enterprise Program concept, milestone-authorization process, and the pilot program authority have substantial merit, and is prepared to provide the necessary support if the Department undertakes the administrative action necessary to making these programs work. [Ref. 5:p. 265]

The House Armed Service Committee (HASC) was minimally involved with the DEP. [Refs. 16, 54] The interest in the DEP for most House committee members centered on the milestone-authorization concept because of resistance to multi-year appropriation. [Ref. 16] HASC members were primarily responsible for the increase in attention that the milestone-authorization section of the law received between the bill originally introduced and the final version of the DEP legislation. [Ref. 16]

Interviews with congressional staff members indicate that a general attitude of mistrust of DoD acquisition prevailed in the HASC. [Ref. 16] This mistrust and resistance to multi-year budgeting noted earlier, led HASC members to require that detailed controls be placed on the milestone-authorization element of the final DEP legislation. [Ref 16]

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The staff also claimed that status as a DEP enabled their program to waive Navy regulations on a selective basis. DEP status also reportedly enabled a "streamlining of their program review" process, primarily at the Navy level in accordance with the Navy implementation guidance. [Ref. 22]

The SSN-21 program manager evaluated his DEP experience as relatively successful. He stressed that ". . . although the Defense Enterprise Program has not ushered in the sweeping reforms some might have hoped for, being designated as a DEP has improved performance of the program's mission in certain instances." [Ref. 36]

Limited success with the SEAWOLF program allows DEP advocates in DoD and Congress to claim evidence of managerial and fiscal benefits. Partial application of DEPs to return benefits in this one program, enables advocates to question the DoD decision to not continue the DEP to improve program efficiency.

Staff of the SEAWOLF program office claim that they pursued three policies that aided successful utilization of the DEP. These three policies are:

1. inform outside agencies of the purpose of the and SEAWOLF program intended utilization

2. unilaterally assume automatic regulatory waiver

3. selectively apply regulatory waiver authority

The program staff believes that by utilizing these three policies, they were able to obtain actual benefits and overcome some obstacles to DEP execution that other programs encountered. [Ref. 22]

They believed that they encountered little organizational resistance to employing their waiver authority because they first spent time "educating" outside offices on their intent. They reported "going public with their intent" early because there was "no advocacy but their own." [Ref. 22]

The staff remembered that when they were first designated a DEP, neither OSD nor the Navy had published any guidance on implementation. (ie., limitations on waiver authority). Therefore, the program manager and staff began to implement DEP procedures in accordance with the law. [Ref. 22] This, in the end, was probably the reason they were able to obtain any benefit at all.

They first informed outside offices of their interpretation of the purpose and intent of the DEP. They informed the organizations with which they expected to interact, that they intended to infrequently utilize the special authority to waive regulatory requirements on only the least useful or non-applicable regulations to ease apprehension over their powerful waiver authority. [Ref. 22]

Citing the fact that they encountered only minimal resistance to their implementation efforts, the staff expressed their belief in interviews that pre-emptory explanations of DEP authority reduced the apprehension of outside organizations over their unfamiliarity with the DEP procedures and also the fear of loss of oversight and control. The staff contends that early and pro-

active actions shaped the expectations and broke down barriers to successful DEP implementation and execution. [Ref. 22]

The staff of the SEAWOLF program acknowledged that selective application of regulatory waiver authority also contributed to success. They claimed that relatively infrequent use of waiver ability to set-aside only the worst, non-value added requirements, through time, led to a reduction in the apprehension of outside agencies that the SEAWOLF program would "run out-of-control" because of this reduced oversight. [Ref. 22] The SSN-21 program manager advocated unilateral assumption of the ability to waive non-statutory regulations by invoking the DEP charter without inviting discussion. He believed this assumption "defeated low-level bureaucratic politics " and helped the Seawolf program achieve successful DEP execution. [Ref. 36] He hypothesized:

> Authority granted to a DEP has been found to be most effective when the DEP designation is unilaterally invoked, forcing the advocate of a perceived requirement to have to appeal to a senior decision maker to force the program to comply. The usual result of this tactic is that either the advocates don't want to press the case or the senior decision maker chooses not to support the imposition of the requirement and the issue dies [Ref 36]

The ability to obtain some managerial and fiscal benefits from DEP utilization, claimed by the SEAWOLF program manager and staff, supports their claim of successful DEP execution. When asked by the Navy SAE if he wished to relinquish DEP designation, the SEAWOLF program manager, Admiral Firebaugh, reaffirmed his belief about successful DEP execution and

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responded, "I strongly desire to retain the DEP designation for the SEAWOLF program." [Ref 36]

Two benefits of the DEP were explained by Admiral Firebaugh in a memo to the SAE stating his desire to retain DEP designation. He identified the reduced administrative burden on his program office staff and a non-specified fiscal saving as benefits caused by eliminating some regulations. He announced that if DEP designation of the SEAWOLF was removed, ". . . program office staffing and funding will have to be increased in order to provide manpower and resources to deal with the increased exposure to non-statutory requirements." [Ref. 36]

The argument that a reform similar to the DEP may be beneficial to DoD in the future is supported by the declared success of the SSN-21 program manager and staff as well as the program manager's desire to retain designation as a DEP. If implemented in a fashion similar to the SEAWOLF, a regulatory reform may contribute to an increase in managerial efficiency and may eventually help reduce the existing regulatory framework of many unnecessary rules and regulatory requirements.

2. Effects of the Defense Management Review

SECDEF Dick Cheney's Defense Management Report (DMR) specifically recommended better utilization of DEPs to support experimental implementation of management-by-exception policies in DoD. SECDEF Cheney concluded that, "DoD should take better advantage of this special

Cheney concluded that, "DoD should take better advantage of this special authority [DEP] than it has to date" [Ref. 38:p. 2]

In discussing the concept of limited reporting requirements, SECDEF Cheney directed that, "the USD/A, with the SAEs, will carefully select several new DEPs from programs in the DAB's Concept Approval (post-Milestone I) phase, provide strong policy direction and oversight in implementing the DEP concept. . . ." [Ref. 38:p. 12]

Despite the SECDEF mandate to better employ the DEP, little was done to continue further experimentation with the concept. Chapter IV provides an analysis of the events that contributed to the USD/A decision not to employ the DEP in response to the DMR.

The DMR reported that little regulatory reduction occurred since implementation of the Packard Commission recommendations and laid some blame for the additional regulatory burden on Congress and DoD. To reduce the DoD-imposed burden, the DMR chartered the Joint OSD-DoD Component Regulatory Relief Task Force to conduct a comprehensive, zero-based review of DoD-level regulations and guidance. Once complete with the DoD-level review, the task force would proceed with a review of military department regulations.

In a strong statement designed to ensure the maximum effectiveness of this zero-based regulatory and guidance review, SECDEF Cheney directed that this effort:

... be governed by a strong presumption against retention or duplication of guidance, absent a clear and compelling need. The burden of establishing such a need will be placed on the proponent of the guidance in question. Special scrutiny will be given to guidance that imposes or occasions unnecessary costs in the acquisition process; that . . . more narrowly confines the discretion of working levels than is required by law or sound management control; and that imposes unnecessary reports and reviews on program offices and contractors. [Ref. 38:pp. 11-12]

After five months of research, the task force released its report in

January 1990. The task for recommended cancellation, combination or revision

and reissuance of:

1. 300 (78%) of 383 DoD directives and instructions reviewed

2. 274 (64%) of 431 DFARS clauses

3. 52,454 (79%) of 66,665 lines of DFARS text;

4. 61 (76%) of 80 Department of Defense Agency contract clauses

5. 23,066 (52%) of 44,057 lines of Department of Defense Agency text. [Ref. 56:p. 2]

As a consequence of the DMR, regulatory reviews are ongoing to reduce

the volume of regulations in each military department regulatory system.

DMR review of DoD-level regulations has had a broad impact on acquisition

programs. DoD has claimed success in implementing a large number of DoD

directives and instructions into the new DoD Inst 5000.series. [Ref. 37]

Overall, the continuing DoD effort to support the DMR in making the

acquisition process more efficient for all DoD programs poses the greatest

challenge to revitalization of DEP concepts. Personnel in the acquisition

community question the wisdom of pursuing a regulatory reform initiative

directed at a limited number of acquisition programs (DEP) while they could be pursuing the DMR directed reforms that apply to all DoD acquisition programs. [Ref. 33:p. 4] It seems reasonable to assume that a greater savings in manpower and funding as well as an improvement in managerial efficiency could result from pursuing the DMR-directed reporting reforms because they apply to a greater number of DoD programs than the DEP. Interviews indicated that it was for this reason that the DMR effort was receiving more attention from personnel in the acquisition community than the DEP. [Refs. 18, 34, 37,]

The DEP was basically overtaken by events. It was a good idea in the mid-1980's but, DoD-wide reform of the acquisition system has moved beyond it.

3. Commercial Practices Pilot Program

The Commercial Practices Pilot Program (CPPP) is a new and experimental reform similar in nature to the DEP. It was generated from a specific recommendation in the conclusion of the Defense Management Report to ". . . demonstrate the advantages of adopting a full range of commercial style buying practices. . . ." [Ref. 38:p. 20]

In directing DoD to make greater use of commercially available products, SECDEF Cheney recommended the submission of a legislative proposal to Congress requesting establishment of pilot programs to emulate the best principles found in commercial practices. These pilot programs would permit

certain DoD programs to use the "full range of commercial contracting terms and conditions when buying commercial products; exempt the acquisition of commercial products from numerous statutory requirements that otherwise govern government contracts. . . ." [Ref. 38:pp. B-2-3]

In the initial request for this reform, DoD sought authority to establish no more that six CPPPs with virtual blanket statutory waiver authority over requirements such as ". . . price, cost, schedule, performance, management, oversight, warranties, and socioeconomic requirements of law." [Ref. 58:p. 193] During 1990 SASC hearings on the 1991 Authorization Act, ". . . several members expressed skepticism about the broad waiver authority and suggested that a detailed justification would be needed before any such program would be approved." [Ref. 58:p. 193]

In much stronger wording, the SASC seemed reluctant to grant the broad statutory waiver requested by DoD. In the SASC report on the FY 1991 National Defense Authorization Act it stated "although the committee agrees that a carefully structured pilot program has the potential for developing improvements in the acquisition process, the committee does not agree that a blanket waiver of all statutes without any congressional oversight is necessary or appropriate." [Ref. 58:p. 193]

The CPPP concept became law within the 1991 National Defense Authorization Act. [Ref. 57:p. 1593] Despite authorization in law, the

particulars of execution are still being negotiated between Congress, DoD and the military departments.

The general concept of this initiative is similar to the DEP attempt to experimentally grant regulatory relief through broad waiver of regulations. The CPPP, like the DEP, also relies on the management-by-exception concept to reduce excessive oversight and reporting requirements. [Ref. 38:p. 20]

The statutory charter of the CPPP is interrelated with the DEP charter. It specifies concurrent designation as a DEP to achieve regulatory relief of DoD and military department regulations, while also authorizing the pursuit of relief from statutory requirements.

However, the CPPP is different than the DEP. Its initiators inadvertently followed a recommendation of the DEP Working Group ". . . that any attempt to revitalize the DEP include enough unique characteristics to warrant the conduct of a separate program." [Ref. 33.p. 3]

The CPPP has the capability to waive statutory requirements that are approved by Congress on a case-by-case basis. Statutes pertaining to the fiscal conduct of a program or that limit the authority of the DoD Inspector General are not eligible for waiver. [Ref. 57:p. 1594]

Nearly one-year after Congress authorized the CPPP concept, USD/A Yockey designated the following six programs to participate in the CPPP experiment: the Armored Gun System, Strategic Sealift, Close Range

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Unmanned Aerial Vehicle (UAV-CR) and the Joint Primary Aircraft Training System (JPATS). [Ref. 59]

Presently, USD/A Yockey and his staff are close to completing a determination of which statute waiver requests that were submitted by the military departments, will be forwarded to Congress for analysis. In the near future, DoD will present its first requests for statutory waiver to Congress under the provisions of the CPPP. A draft request has been prepared and should be forwarded by DEPSECDEF by mid 1992.

In this draft CPPP request, DEPSECDEF Atwood seeks specific statutory waivers for the Strategic Sealift and JPATS programs. He also outlines the internal DoD regulatory relief that will be granted to CPPPs. The memo declares that DoD will treat each CPPP on a management-by-exception basis. It also dictates that each CPPP adopt a "managerial plan embodying a streamlined approach that waives all internal DoD policies, directives, regulations, and administrative rule and guidelines." [Ref. 60:p. 2] It specifically allows only four executives, the SAEs and USD/A, to designate regulations that will still apply to designated CPPPs.

These procedures are similar to DEP (without milestone-authorization). In fact, the draft memo indicates that CPPPs will also be DEP designated to provide waiver of internal DoD regulations and says, "this approach is consistent with the designation of pilot programs as Defense Enterprise Programs." [Ref. 60:p. 2]

The procedures written into the existing CPPP legislation authorize automatic waiver of internal DoD regulations and are essentially the same as those in the DEP. Therefore, USD/A may choose to disregard DEP designation and lose nothing by proceeding under the provisions of the CPPP to bring about virtually the same internal regulatory relief. The intent of USD/A or SECDEF to disregard the DEP designation is unclear because in the draft memo, DEP designation is a mandatory requirement for CPPPs. [Ref. 60:p. 2]

However, interviews with USD/A staff indicate that whatever method is used, USD/A Yockey, with the support of DEPSECDEF Atwood, will aggressively pursue blanket waiver of regulations and require regulatory proponents to justify maintenance of every regulation they wish to maintain. [Refs. 18, 34] [Ref. 60:p. 2]

USD/A is seeking additional authority to further experiment with management-by-exception principles in DoD acquisition programs by requesting modification of the CPPP legislation. In the draft request to Congress seeking the initial CPPP waivers, DEPSECDEF Atwood outlines the DoD plan to consolidate audit workload and limit audit frequency to specific annual periods for CPPPs via a memorandum-of-agreement between the DOD Inspector General and other audit agencies. The memo also requests a similar arrangement with Congress regarding the GAO to prevent a situation similar

to one experienced by the Unmanned Aerial Vehicle project when it hosted 37 audits in one year. [Ref. 60:p. 3][Ref. 34]

Also in the draft memo, DoD is requesting modification of the enabling legislation for the CPPP in an attempt to broaden DoD authority. DoD is requesting authority to lift the restriction requiring CPPPs to first qualify as major acquisition programs. DoD argues that smaller programs could also:

> . . . benefit substantially from the opportunity to seek selected statutory waivers; indeed, it has been argued that smaller programs stand to make major gains in terms of overall efficiency from waivers of statutes establishing various procurement and contracting restrictions. [Ref. 60:p. 7]

DoD is also asking Congress to amend the enabling statute to permit CPPPs to pursue statutory waivers that would grant greater financial flexibility. Current restrictions in the implementing legislation prohibit DoD from to seeking no-year funding (funds available for obligation with no time limit).

DoD believes that no-year funding flexibility funds will allow program managers to manage their programs efficiently:

> . . . rather than executing obligation commitments according to arbitrary budgetary deadlines, PMs could plan obligations in a more prudent and flexible manner. The availability of 'no-year' funds would reduce the current incentive to spend money regardless of the immediate need. With the pressure to obligate appropriated monies before arbitrary budget deadlines eliminated, Pms could better respond to changing market conditions and emergence of promising technologies. [Ref. 60:pp. 8-9]

D. CHAPTER SUMMARY

The burden of acquisition regulation still provides a reason for DoD to "experiment with alternate regulatory arrangements" similar in intent to the DEP. [Ref. 2:p. VIII-14] The time recovered from elimination of unnecessary regulations could be used by program managers to improve managerial efficiency. The DEP was the leading point of regulatory reform in the late 1980's. At present however, the streamlined management and milestone-authorization pillars of the DEP do not support the need for revitalization.

In the unlikely event that DoD policy-makers decide to revitalize the DEP, they can rely on the support of the Senate Armed Services Committee (SASC). After chastising DoD for ineffective utilization of the DEP in the past, the SASC openly pledged its support for the DEP concept in the 1992/93 National Defense Authorization Act.

At least one DEP, the SSN-21 SEAWOLF, claimed managerial and fiscal benefits from DEP designation. The DEP concept received an endorsement from the SEAWOLF program manager who strongly desired to maintain the DEP designation. He argued that his program office staffing and funding would have to be increased if DEP designation was revoked.

The SEAWOLF program office reported pursuing three policies that they hypothesized were the keys to successful DEP implementation and utilization. The SSN-21 program manager and his staff believe that utilization of these keys reduced organizational resistance to implementation and lessened

organizational apprehension about the riskiness of waiving regulations for the SSN-21 program. These policies were:

1. education of outside agencies regarding the DEP purpose and implementation

2. unilateral assumption of automatic regulatory waiver

3. selective application of regulatory waiver authority.

SECDEF Cheney's Defense Management Report (DMR) ultimately eliminated some of the need to revitalize the DEP concepts. It chartered the Joint OSD-DoD Component Regulatory Relief Task Force to conduct a comprehensive, zero-based review of DoD and military department regulations and guidance. Task force efforts resulted in recommendations to cancel, combine, or revise and reissue a substantial number of DoD-level regulations and guidelines. This DMR-directed, regulatory relief effort affects many more programs than the DEP. Because the regulatory relief provided by the DMR effort applies to all acquisition programs, it reduces the demand for DEP revitalization.

The Commercial Practices Pilot Program (CPPP) is a reform recently enacted in law by Congress. The main thrust of the CPPP is regulatory relief. The CPPP regulatory relief procedures are essentially the same as those of the DEP, yet go much further. CPPPs have the capability to waive statutory requirements on a case-by-case basis, after DoD justification and approval by Congress.

Although the CPPP is authorized in law, the specifics of DoD implementation are still under negotiation. In the near future, DoD will present its first requests for statutory waiver to Congress under the CPPP provisions. DEPSECDEF Atwood has assumed the role as advocate for the CPPP. His intent is to apply blanket regulatory waivers and maintain the burden of proof for retaining a regulation on its advocate as a part of the CPPP reform.

It is unclear whether USD/A will allow the CPPP to replace DEP procedures or instead, rely on them to provide non-statutory regulatory relief for the CPPPs. If DEP procedures are utilized to provide internal regulatory relief for CPPPs, the DEP concept will remain a vital part of the DoD regulatory reform effort.

Future DEPs, should they be designated, may benefit from the high-level support for the CPPP because of the interdependence of the two programs. The present climate of support for the CPPP and intent of DEPSECDEF to reapply blanket regulatory waiver for CPPPs may improve the future viability of the DEP.

Analysis in this and previous chapters provides the basis for the conclusions in Chapter VI. Conclusions pertaining to the causes, outcomes and effects of the DEP are presented in the next chapter.

VI. CONCLUSIONS

"Those who cannot remember the past
are condemned to repeat it"

George Santayana
Life of Reason, Vol. I

The purpose of this thesis is to analyze the implementation, and outcomes
of the DEP to determine:

1. What factors contributed to the failure of the DEP to achieve its intended
   goals

2. The ultimate impact of the DEP on the defense acquisition process

The DEP was an acquisition reform created by Congress for DoD. It was
the intent of Congress that DoD test management principles that had proven
successful in commercial entities in selected DoD acquisition programs. The
DEP procedures were based on these three pillars:

1. Reducing unnecessary regulatory and reporting requirements

2. Utilizing a streamlined management structure to reduce excessive
   oversight

3. Utilizing milestone-to-milestone funding to improve fiscal stability and
   managerial efficiency.

Although each pillar of the DEP was related to a specific recommendation
of the highly regarded Packard Commission, the DEP initiative failed to

achieve its objectives. The DEP initiative exists today, in name only, but offers
little improvement in managerial or fiscal efficiency to designated programs.

A. ANSWERS TO RESEARCH QUESTIONS

1. Why Hasn't Implementation of the Defense Enterprise Program Reduced Overregulation and Micromanagement?

The cause for the inability of the DEP to grant benefits may be grouped
into these three broad categories:

1. Technical Failures in Implementation

2. Failure to Address or Consider Organizational Resistance to Reduced Oversight

3. Political Considerations

   a. Technical Failures in Implementation

   Analysis of the circumstances and events surrounding DEP execution
indicates that the DEP was unable to provide the relief anticipated because it
was never effectively implemented in DoD programs. A poor implementation
strategy allowed the initiative to deviate from its original intent and delayed or
prevented DEPs from delivering anticipated benefits in a timely fashion.

   The method in which the DEP was implemented was the main reason
the initiative failed. DoD and military department interpretations and
adjustments led to a DEP implementation method that did not resemble what
was intended by its initiators. This disconnect is typical of problems that
reform commissions have highlighted in previous studies of DoD acquisition.

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Misinterpretation of congressional intent resulted in the application of regulations that did not conform to the intent of statute.

The confusing morass of acquisition regulation delayed and reduced DEP fiscal and managerial benefits. It took the military departments almost six months (best case) to decipher the existing regulatory framework to determine which regulations were not based in statute, or the FAR or DFARS and, therefore, eligible for waiver. The military departments took another six months to one-year to determine which regulations each would waive. Unfortunately, the regulations waived produced little benefit because they were usually duplicated at the DoD level. The end result of this process was that the vast majority of regulations continued to be applied to the DEPs. Military departments may have intentionally undermined the DEP as a means of resisting centralization of acquisition authority in the USD/A, a battle they eventually lost under the DMR.

DEPs operated for up to one and one-half years without clear guidance from DoD or the military departments on how to apply the regulatory relief provisions of the law. The late start in implementing this pillar of the DEP caused a delay in accrual of regulatory relief for programs. The guidance that was provided initially served only to confuse managers.

Part of the confusion in implementation resulted from USD/A redirection of DEP intent. USD/A Godwin ignored the DEP statute that authorized automatic waiver of DoD regulations by unilaterally altering the

statutory procedures of the DEP. He required the SAEs to identify each regulation that would and would not apply to DEPs, and required each regulatory waiver request to be formally justified. Furthermore, the SAEs had to include a detailed assessment of the benefits that would be derived from each waiver.

The change from automatic to justified waiver created a disincentive to apply the regulatory waiver provision. The burden of proof changed from the regulation advocate to the DEP advocate. Program managers were too busy to conduct formal assessments and compose justifications for each regulation they wished to waive. This led to conservative application of the regulatory relief provision.

Technical failures also affected the success of the milestone-authorization pillar of the DEP. The failure of Congress to provide milestone-appropriation to accompany milestone-authorization resulted in little reduction in budget , stification for programs that were milestone-authorized. Also, the hardships on program management that resulted from exceeding the budget baseline outweighed potential benefit especially when considering that no such penalty existed for non-milestone-authorized programs. Program managers did not desire the added attention that was required by the baseline deviation procedures. The additional administrative work that milestone-authorization entailed was an disincentive for managers to accept DEP designation. In fact, it led to resentment and resistance.

b. Failure to Address Organizational Resistance to Reduced Oversight

The DEP initiative failed to become effective because it did not include a strategy to overcome organizational resistance to reduced oversight of acquisition programs. Many staff members in the acquisition community maintained a general attitude that the acquisition system "wasn't broken", pointing to the overwhelming percentage of transactions that occurred despite the weaknesses in the system.

Organizational resistance to the DEP hindered implementation by denying or delaying early benefits. Certain events either caused or manifested the organizational resistance to reduced oversight. In the end, disincentives for institutionalizing management-by-exception contributed to the failure of the DEP. The imposition of a streamlined chain-of-command in the military department acquisition organization led to development of a parallel or "shadow" line-of-communication. This developed in response to resistance of some parts of the organization to a reduction in the existing level of control and oversight of acquisition programs.

Parochial regulatory advocacy was another manifestation of organizational resistance to reduced oversight. Advocates of the status quo came forward at every level to justify the validity and necessity of their particular regulation or requirement because these requirements protected them with respect to liability for program failure.

Each program selected to be a DEP or for milestone-authorization was a major acquisition program (ACAT I) that attracted significant attention by virtue of its costliness. The budgetary size of the DEPs also caused significant resistance to reductions in oversight, especially budgetary oversight. The potentially large monetary size of errors in these relatively large programs presented the organization with incentive to embrace oversight protection, to a much greater exten' than if the DEP had been small dollar programs.

Even program managers had an incentive to resist reducing oversight requirements. Extensive reporting created a sense of shared responsibility for the program. Superiors granted tacit approval by receiving reports and briefings and offering no directive to negate or change the information or plan presented. The ability to reduce individual risk by spreading some small portion of responsibility to others offered program managers a significant incentive to resist the streamlining management pillar of the DEP.

Effective high-level advocacy for the DEP could have helped to overcome some of this organizational resistance to reduced oversight. However, at the time that the DEPs needed support and advocacy, the USD/A was preoccupied with trying to establish his own fledgling organization. Congressional testimony indicates that USD/A Godwin was too busy defining the new USD/A position, and also might not have been the best choice for the advocate role. The House Armed Services Committee reported that Mr.

Godwin lacked experience with DoD acquisition and Pentagon politics. [Ref. 2:p. II-11]

c. Political Considerations

Political competition, an important aspect of DoD acquisition, was also a significant contributor to the DEP outcome. Many in Congress acknowledge the potential fiscal and managerial benefits that fiscal stability might bring to acquisition programs. However, general congressional resistance to the multi-year budget process, particularly in the House and among appropriators in the House and Senate, prevented Congress from providing milestone-appropriation to accompany milestone-authorization.

This resistance was found primarily in the House of Representatives because of the two-year tenure of Representatives. The short tenure creates powerful political considerations that prevented the institution of milestone-appropriation and the multi-year budget process for the DEP.

The House Armed Services Committee (HASC) primarily involved itself in the milestone-authorization portion of DEP implementation. An attitude of mistrust of DoD acquisition in the HASC caused the concept to regress from the initial stage of genuine trust in DoD acquisition program management to virtual absence of trust and imposition of detailed and burdensome provisions in the end. Congress imposed extensive controls on acquisition programs that were supposed to be relatively free from external interference.

Also, Congress maintained the same level of its own oversight requirements, it directed DoD to implement a reform aimed specifically at reducing DoD oversight regulatory and reporting requirements. If one subscribes to the notion that "information is power" then congressional attempts to reduce the flow of information in DoD was self-serving. Further, a shadow line-of-communication developed within DoD by necessity to gather the information needed to answer the increasing number of queries regardless of reporting waivers granted to DEPs.

A political struggle was taking place within DoD between USD/A and the military departments. During the time of DEP execution, USD/A Godwin was attempting to establish the USD/A position as the centralized "czar" for DoD acquisition. This struggle for power manifested itself in the DEP with regard to whether USD/A or the military departments had the authority to determine regulatory waivers for DEPs. This struggle led to program manager confusion and reluctance to request any regulatory relief.

Program managers also felt the heat of political pressure. They were attempting to execute programs utilizing the streamlined management concepts mandated in law, while staffs, sometimes senior in rank or tenure, fought to maintain existing oversight requirements. Political considerations such as these caused a conservative application of the DEP provisions, which ultimately yielded few results.

The unfortunate absence of benefits in the early years of reform from 1987 to 1991 led to widespread disappointment and loss of interest in the DEP within the acquisition community. Ultimately, the decline in interest and attention to the DEP prevented the initiative from ever gaining enough momentum to overcome bureaucratic inertia in DoD.

2. Is a Congressional "Hands-off" or Management-by-Exception Program Possible for the Department of Defense?

Analysis of the evolution of the DEP concept suggests that although some powerful members and committees within Congress are willing to trust DoD acquisition management by permitting management-by-exception procedures, other powerful interests are not so willing. The DEP reform was directed by Senator Dan Quayle and the Senate Armed Services Committee to relieve DoD regulations only. This limitation, plus the fact that Congress failed to provide milestone-appropriation to accompany milestone-authorization, demonstrates the unwillingness of important decision makers and staff in Congress to relinquish acquisition control to DoD or to support the management-by-exception concept.

Chapter III and IV detail the evolution of the DEP initiative and its ultimate outcome--the imposition of more rather than less control over DEPs. The DEP concept regressed from an initial stage of genuine trust in DoD acquisition program management to virtual absence of trust and imposition of detailed provisions requiring elaborate procedures for milestone-authorization.

These procedures caused additional work for DEP managers and created the risk of automatic and instantaneous loss of fiscal obligational authority to execute the program. The imposition of extensive controls on acquisition programs that were supposed to be relatively free from external interference indicates that, despite the desire of some factions in Congress, as a body it is not willing to permit true management-by-exception in acquisition programs.

3. **Can the Defense Enterprise Program Help to Accomplish Staff Reductions by Taking Advantage of Reduced Regulatory and Reporting Requirements?**

The fiscal and managerial benefits claimed by the SSN-21 SEAWOLF program indicates that, when properly implemented, actual regulatory and reporting relief was obtained as a result of DEP designation. The SEAWOLF program manager reported reduced administrative burden on his staff and some fiscal savings as a result of the regulatory and reporting relief provided by DEP designation. The regulatory and reporting relief provided by the DEP could allow other program management offices to function at the same level of effort with a smaller staff because of the absence of administrative burden due to waived regulations.

4. **Is it Feasible to Expect the Defense Enterprise Program to Provide Relief From Over-regulation and Unnecessary Reporting in the Future?**

The analysis in Chapter V suggests that, although the need for regulatory relief still exists, the DEP will not be revitalized to supply this relief. Two other reforms, the DMR regulatory relief effort and Commercial Practices Pilot Program (CPPP) obviate the need for revitalization of the DEP.

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Because the DMR regulatory relief effort has broader applicability than the narrowly applied DEP, it has attracted more support from the acquisition community. The DMR regulatory reform is now in progress as part of an ongoing reform of the DoD acquisition system. The continuous effort to improve the system reduces the incentive to pursue the DEP which, in itself, was only minimally effective in reducing regulations for a limited number of programs.

The Commercial Practices Pilot Program (CPPP) includes virtually all of the provisions for regulatory relief provided by the DEP, yet it also provides the capability to request waiver of statutory requirements from Congress. This is a vast improvement over the DEP concept because it provides the capability to attack what many feel is the real root of the problem--unnecessary statutory requirements and regulations. High-level executive support for the CPPP indicates that the DEP will not be revitalized in the future. Instead, the CPPP will be used to pursue regulatory relief.

5. How Can the Department of Defense Effectively Accomplish Implementation if Congress Mandates Utilization of Defense Enterprise Program Concepts in the Future?

Successful implementation of the DEP concepts by the SSN-21 SEAWOLF program provides an excellent model for the rest of DoD to emulate if directed to implement the DEP or similar concepts in the future. SEAWOLF program success highlights the need to employ a planned

implementation strategy to overcome obstacles and to institute organizational change.

The SEAWOLF program office reported pursuing three policies that they believed were the keys to successful DEP implementation and utilization. These policies were:

1. education of outside agencies regarding the DEP purpose and implementation

2. unilateral assumption of automatic regulatory waiver

3. selective application of regulatory waiver authority.

The SSN-21 program manager and his staff believe that utilization of these keys reduced organizational resistance to implementation and lessened organizational apprehension about the riskiness of waiving regulations for the SSN-21 program.

If DoD pursues a reform similar in nature to the DEP, it should employ similar implementation methods to overcome organizational resistance to reduced oversight. These methods should include educating the entire DoD acquisition structure on the goals and intent of the DEP and procedures to implement the new initiative. The new reform should be able to selectively challenge non-value added regulations or oversight requirements (not based in statute). This would result in a relatively infrequent use of waiver authority. If the claims of the SEAWOLF staff are true, mild utilization of waiver authority may reduce apprehension of outside agencies and therefore, some of the resistance within the acquisition organization.

It must be assumed by all in the acquisition community that any new reform has the ability to waive all non-statutory regulations for this particular implementation method to be successful. Whenever a regulation is suspected by the program management office of being non-value added and challenged, this assumption would obligate the regulation advocate to justify its continued application. The experience of the SEAWOLF suggests that, more often than not, the regulatory waiver will prevail.

In the DEP experiment, regulation advocates were successful maintaining the applicability of their "parochial" or self-serving requirements. These efforts to maintain control over programs have been counter-productive to the regulatory relief effort.

A reform advocate at the USD/A level might help to overcome organizational resistance to reduced oversight. Such highly-placed advocate within DoD would keep the momentum and interest in the reform positively focused and moving forward. If the reform is implemented properly, early benefits may be used as evidence by reform advocates to support further attempts to influence the attitudes of the resource decision hierarchy toward acceptance of reform concepts.

The success of the SEAWOLF program also demonstrates the need for DoD to establish implementation plans and guidance before any acquisition initiative is begun in earnest. The SEAWOLF program began implementation immediately in accordance with the provisions of the law rather than waiting

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for implementing guidance from USD/A. The rapid interpretation and execution of the law by the SEAWOLF program to some extent eliminated the need for military department and DoD-level guidance. This helped to reduce confusion and reluctance on the part of this program manager to aggressively implement the reform.

B. CONCLUSIONS

The DEP provides an excellent example of the complexity of instituting reform within DoD. Analysis of the DEP experiment renders conclusions about effective methods to implement reform in DoD.

First, reforms with different goals and objectives should not be combined. An initiative focused on one area of reform (ie., regulatory relief) is only required to overcome one type of resistance. The attempt to make a reform all things to all people will produce a fate similar to that of the DEP. Second, the inclusion of milestone-authorization hindered the DEP by generating additional resistance in Congress over loss of fiscal oversight opportunities by appropriators who might have otherwise supported the reform.

In all cases, a carefully planned strategy to implement broad scale DoD reform is essential. A single strategy for all reforms that will be effective in all instances is impossible to design. However, broad guidelines of this strategy may be assessed. The initiators of reform must consider methods to facilitate organizational understanding of the underlying concept and purpose of the change. The DEP had no strategy in this regard.

The DEP disconnected between intended and actual implementation and, therefore, outcomes. If involved early in the conceptualization phase, efforts of key personnel throughout the acquisition structure might have forged a closer fit of implementation guidelines to conceptual intent. Future reforms should employ this technique to avoid disconnecting congressional purpose and DoD execution.

The strategy for implementing the change must also provide methods and incentives to modify existing attitudes towards acceptance of the reform within the organization. Organizational resistance can only be overcome by providing incentives to accept change. It is also essential to maintain high-level advocacy to keep the momentum of the reform advancing toward its goal and induce support for the reform throughout the organization.

The procedural changes unilaterally mandated by USD/A Godwin for DEP implementation were actually disincentives for effective application of the DEP. Implementation procedures to obtain the DEP goal required more, rather than less, additional work by military department and program management offices. No reform can succeed when this type of approach is used. Incentives to those who can influence the outcome of the reform must be evident to induce the desired actions.

It should be understood and accepted by the organization that there will be some delay in obtaining tangible results from implementation of the reform. The DEP lost crucial momentum during the early stage of execution because

no tangible benefits were reported by the participating programs. Unfortunately, they were designated for over one-year before military department implementing guidance was issued. Advocates need tangible results to change perceptions within the organization and generate enthusiasm for the reform.

The lack of a high-level advocate for the DEP and an absence of early results due to poor and tardy DoD implementation contributed to the downfall of the DEP. This outcome indicates that no matter how great the need for a particular reform, it will not pass the test of implementation on merit alone. Organizational inertia and the political complexity of the acquisition system pose obstacles that are difficult to surmount without a strategy that meets the criteria listed above.

C. AREAS REQUIRING ADDITIONAL RESEARCH

In the future, strategies to implement acquisition reform, similar to the DEP, require methods to quantify potential benefits. This will require development of a system to assess the fiscal and managerial impact of regulatory requirements on efficiency of program management.

The inception of the CPPP initiative provides an opportunity for future research to compare the outcomes of the CPPP and DEP. The nature of reform advocacy, perceptions of benefits and impact of organizational resistance are excellent issues for comparison in additional research.

APPENDIX A

ACTIONS TO IMPROVE
THE ACQUISITION PROCESS

1. MANAGEMENT PRINCIPLES include improved long-range planning; greater delegation of responsibility, authority, and accountability; emphasis on low-risk evolutionary alternatives; more economic production rates; realistic budgeting and full funding; improved readiness and sustainability; and strengthening the industrial base.

2. PREPLANNED PRODUCT IMPROVEMENT should be used as a means of achieving performance growth.

3. MULTI-YEAR PROCUREMENT should be used on a case-by-case basis, to reduce unit production costs.

4. INCREASED PROGRAM STABILITY IN THE ACQUISITION PROCESS should be achieved by fully funding R&D and procurement in order to maintain the established baseline schedule.

5. ENCOURAGE CAPITAL INVESTMENT TO ENHANCE PRODUCTIVITY through legislative, contractual, and other economic incentives.

6. BUDGET TO MOST LIKELY COSTS to achieve more realistic long-term defense acquisition budgets, reduce apparent cost growth, and achieve increased program stability.

7. ECONOMIC PRODUCTION RATES should be used whenever possible and advantageous.

8. ASSURE APPROPRIATE CONTRACT TYPE in order to balance program needs and cost savings with realistic assessment of contractor and government risk.

9. IMPROVE SYSTEM SUPPORT AND READINESS by establishing objectives for each development program and "designing-in" reliability and readiness capabilities.

10. REDUCE THE ADMINISTRATIVE COST AND TIME TO PROCURE ITEMS by raising the limit on purchase order contracts and reducing unnecessary paperwork and review.

APPENDIX A

11. INCORPORATE THE USE OF BUDGETED FUNDS FOR
TECHNOLOGICAL RISK by quantifying risk and incorporating budgeting
techniques to deal with uncertainty.

12. PROVIDE ADEQUATE FRONT-END FUNDING FOR TEST HARDWARE
in order to emphasize early reliability testing and to permit concurrent
development and operational testing when appropriate.

13. GOVERNMENTAL LEGISLATION RELATED TO ACQUISITION which
unnecessarily burden the acquisition or contracting process should be
eliminated.

14. REDUCE THE NUMBER OF DoD DIRECTIVES by performing a cost-
benefit check and requiring that the DAE be the sole issuer of acquisition-
related directives.

15. FUNDING FLEXIBILITY should be enhanced by obtaining legislative
authority to transfer individual weapon system procurement funds to RD,T&E
when appropriate.

16. CONTRACTOR INCENTIVES TO IMPROVE RELIABILITY AND
SUPPORT should be developed and introduced into RFPs, specifications, and
contracts.

17. DECREASE DSARC BRIEFING AND DATA REQUIREMENTS in order to
increase the efficiency of DSARC and other program reviews.

18. BUDGETING WEAPONS SYSTEMS FOR INFLATION should be adopted
in order to more realistically portray program cost.

19. FORECASTING OF BUSINESS BASE CONDITION AT MAJOR DEFENSE
PLANTS by coordinating interservice overhead data and providing program
projections to plant representatives.

20. IMPROVE THE SOURCE SELECTION PROCESS by placing added
emphasis on past performance, schedule realism, facilitization plans, and cost
credibility.

21. DEVELOP AND USE STANDARD OPERATIONAL AND SUPPORT
SYSTEMS to achieve earlier deployment and enhanced supportability with
lower risk and cost.

APPENDIX A

22. PROVIDE MORE APPROPRIATE DESIGN-TO-COSTS GOALS to provide effective incentives during early production runs.

23. ASSURE IMPLEMENTATION OF ACQUISITION PROCESS DECISIONS by initiating an intensive implementation phase.

24. (ISSUE A) DSARC DECISION MILESTONES should be reduced to "Requirements Validation" and "Program Go-Ahead."

25. (ISSUE B) MISSION ESSENTIAL NEEDS STATEMENT (MENS) should be submitted with service POM thus linking the acquisition and PPBS process.

26. (ISSUE C) DSARC MEMBERSHIP should be revised to include the appropriate service secretary or service chief.

27. (ISSUE D) THE DEFENSE ACQUISITION EXECUTIVE (DAE) should continue to be the USDRE.

28. (ISSUE E) THE CRITERION FOR DSARC REVIEW should be increased to $200 million RDT&E $1 billion procurement in FY 80 dollars.

29. (ISSUE F) INTEGRATION OF THE DSARC AND PPBS PROCESS will be achieved by requiring that fiscally executable programs be presented for DSARC review.

30. (ISSUE G) LOGISTICS AND SUPPORT RESOURCES will be included in the service POM by weapon system, and program managers will be given more control of support resources, funding, and execution.

31. (ISSUE H) IMPROVED RELIABILITY AND SUPPORT for expedited ("Fast Track") programs will be achieved by requiring an early decision on the additional resources and incentives needed to balance the risks.

32. INCREASE COMPETITION in acquisition by establishing management programs and setting objectives.

SOURCE: [Ref. 9]

99TH CONGRESS
2D SESSION

S. 2082

To amend title 10, United States Code, to improve the management of major defense acquisition programs, to establish a Defense Acquisition Service, and to limit employment contacts between senior officials of the Department of Defense and defense contractors.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 20 (legislative day, FEBRUARY 17), 1986

Mr. QUAYLE introduced the following bill; which was read twice and referred to the Committee on Armed Services

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A BILL

To amend title 10, United States Code, to improve the management of major defense acquisition programs, to establish a Defense Acquisition Service, and to limit employment contacts between senior officials of the Department of Defense and defense contractors.

1   *Be it enacted by the Senate and House of Representa-*

2 *tives of the United States of America in Congress assembled,*

3 That this Act may be cited as the "Defense Acquisition En-

4 terprise and Initiative Act of 1986".

2

1   DEFENSE ENTERPRISE PROGRAMS

2   SEC. 2. (a)(1) Part IV of subtitle A of title 10, United

3 States Code, is amended by inserting after chapter 131 the

4 following new chapter:

5 "CHAPTER 132—DEFENSE ENTERPRISE PROGRAMS

"Sec.
"2221. Definitions.
"2222. Defense enterprise programs; designation and management of programs.
"2223. Defense enterprise program managers.
"2224. Defense enterprise program staff.
"2225. Authorization policy for defense enterprise programs.

6 "§ 2221 **Definitions**

7   "In this chapter:

8   "(1) 'Agency' means an agency named in clause

9   (1), (2), (3), or (4) of section 2303(a) of this title.

10   "(2) 'Defense Acquisition Service' means the De-

11   fense Acquisition Service referred to in section 201 of

12   this title.

13   "(3) 'Defense enterprise program' is any major

14   defense acquisition program designated by the head of

15   an agency under section 2222 of this title.

16   "(4) 'Head of an agency' means the Secretary of

17   the Army, the Secretary of the Navy, and the Secre-

18   tary of the Air Force.

19   "(5) 'Major defense acquisition program' has the

20   same meaning as provided in section 139a(a)(1) of this

21   title.

3

1   "§ 2222. Defens   enterprise programs: designation and

2   **management of programs**

3   "(a) The head of an agency, with the approval of the

4 Secretary of Defense, may designate any major defense ac-

5 quisition program conducted by such agency as a defense en-

6 terprise program.

7   "(b)(1) A defense enterprise program shall be managed

8 by a program manager appointed as provided in section 2223

9 of this title.

10   "(2)(A) A defense enterprise program manager of an

11 agency shall report to and be under the direction, control,

12 and authority of the head of such agency or a designee who

13 meets the requirements of subparagraph (B). A defense enter-

14 prise program manager shall not be subject to or be required

15 to report to any other officer or employee of the agency.

16   "(B) For purposes of subparagraph (A), a designee of a

17 head of an agency is an individual who is under the direction,

18 control, and authority of the head of such agency and who

19 reports only to the head of such agency on defense enterprise

20 programs.

21   "(c)(1) A defense enterprise program shall not be subject

22 to any acquisition regulation, policy, directive, or administra-

23 tive rule or guideline relating to the acquisition activities of

24 the Department of Defense other than the Federal Acquisi-

25 tion Regulation and regulations that implement or supple-

26 ment the Federal Acquisition Regulation.

4

1   "(2) Paragraph (1) shall not be construed to limit the

2 application of Federal legislation relating to the acquisition

3 activities of the Department of Defense.

4 "§ 2223. Defense enterprise program managers

5   "(a) The head of an agency conducting a defense enter-

6 prise program shall appoint a program manager for such

7 program.

8   "(b)(1) The head of an agency shall select a defense en-

9 terprise program manager from among civilian employees of

10 the Defense Acquisition Service who meet the requirements

11 of paragraph (2) or members of the armed forces who meet

12 such requirements.

13   "(2) A defense enterprise program manager shall have

14 at least 8 years of experience in acquisition, support, and

15 maintenance of weapon systems.

16   "(3) A member of the armed forces may be selected to

17 be a defense enterprise program manager without regard to

18 the grade of the member or any administrative policy relating

19 to the duty assignments of members of the armed forces.

20   "(c)(1) The term of appointment of a defense enterprise

21 program manager shall be at least (A) 4 years, or (B) the

22 period beginning on the date of the appointment and ending

23 on the first date (after such date of appointment) on which

24 the defense enterprise program reaches a defense systems ac-

1 quisition review council milestone established for the pro-

2 gram, whichever period is shorter.

3   "(2) A defense enterprise program manager of an

4 agency may be removed by the head of the agency only for

5 inadequate performance or to be appointed defense enterprise

6 program manager of a more important or higher priority de-

7 fense enterprise program (as determined by such head of an

8 agency).

9   "(d)(1) Under regulations prescribed by the Secretary of

10 Defense, each year the person to whom a defense enterprise

11 program manager reports pursuant to section 2222(b)(2) of

12 this title shall formally evaluate the performance of such

13 manager.

14   "(2) In evaluating the performance of a manager of a

15 defense enterprise program, the person making the evalua-

16 tion shall take into consideration the extent to which the

17 manager has been able to achieve the objectives of the pro-

18 gram, including quality, timeliness, and cost objectives, and

19 any comments received pursuant to paragraph (3).

20   "(3) Under regulations prescribed by the Secretary of

21 Defense, each officer or employee of an agency and each

22 member of the armed forces who, except for section

23 2222(b)(2) of this title, would supervise or control the manag-

24 er of a defense enterprise program, receive reports on the

25 program from such manager, or have the authority to ap-

1 prove or disapprove the decisions of such manager in con-

2 ducting the program may submit to the person evaluating

3 such manager comments on the performance of such

4 manager.

5 "**§ 2224. Defense enterprise program staff**

6   "(a)(1) The manager of a defense enterprise program

7 may establish a senior staff to assist in the management of

8 the program. The manager may select the members of the

9 senior staff from among members of the Defense Acquisition

10 Service and members of the armed forces.

11   "(2) Members of the armed forces who are selected for

12 positions in the senior staff of a defense enterprise program

13 shall be assigned to such positions without regard to any ad-

14 ministrative policy relating to the assignment of members of

15 the armed forces.

16   "(b)(1) A defense enterprise program manager may ap-

17 point a technical staff, including experts in contracting, audit-

18 ing, testing, and logistics, to enable the manager to manage

19 the program without the technical assistance of another orga-

20 nizational unit of an agency.

21   "(2) A defense enterprise program manager of an

22 agency shall appoint the members of his technical staff from

23 among members of the Defense Acquisition Service, other

24 officers and employees of the agency, and members of any

25 branch of the armed forces who are reasonably available for

1 such appointment, as determined by the Secretary concerned.

2 In making determinations of availability for the purpose of

3 this paragraph, the Secretary concerned shall, to the maxi-

4 mum extent practicable, find that persons selected for ap-

5 pointment to a technical staff are reasonably available for

6 such appointment.

7 "§ 2225. Authorization policy for defense enterprise pro-

8   grams

9   "(a) It is the policy of the Congress to authorize at any

10 one time in connection with any defense enterprise program

11 the appropriation of sufficient funds to carry out the program

12 through at least one defense systems acquisition review coun-

13 cil milestone established for the program.

14   "(b) The Secretary of Defense shall specify in each au-

15 thorization request submitted to the Congress for a defense

16 enterprise program the amount of funds necessary to carry

17 out the program through at least one defense systems acqui-

18 sition review council milestone established for the program.".

19   (2) The table of chapters at the beginning of part IV of

20 such subtitle is amended by inserting after the item relating

21 to chapter 131 the following new item:

"132. Defense Enterprise Programs... 2221".

22   (b) A person may be appointed to a position of defense

23 enterprise program manager or to a position on the senior

24 staff of a defense enterprise program under section 2223(b) or

25 2224(a), respectively, of title 10, United States Code (as

8

1 added by subsection (a)(1)), before the date on which the De-

2 fense Acquisition Service referred to in such sections is estab-

3 lished. The requirement for a person so appointed to be a

4 member of the Defense Acquisition Service (as prescribed in

5 each such section) and the civil service laws relating to the

6 examination and selection of persons for appointment to civil-

7 ian positions in the Federal Government shall not apply to

8 the appointment of a civilian to such position before such

9 date.

10 USC 2436.   "§ 2436. Defense enterprise programs

"(a) IN GENERAL.—The Secretary of Defense shall conduct through the Secretaries of the military departments, a program with respect to increasing the efficiency of the management struc ture of defense acquisition programs by reducing the number of officials through whom a program manager reports to the senior procurement executive of the military department concerned.

"(b) DESIGNATION OF PARTICIPATING PROGRAMS.—The Secretary of a military department may designate any defense acquisition program under the jurisdiction of the Secretary to participate in the program described in subsection (a). A program designated under this subsection shall be known as a 'defense enterprise program

"(c) GUIDELINES.—The Secretary of Defense shall issue guidelines governing the management of defense enterprise programs. Such guidelines shall include the following requirements:

"(1) The Secretary concerned shall designate a program executive officer for each program.

Reports.   "(2) The program manager for each program shall report with respect to such program directly, without intervening review or approval, to the program executive officer for the program.

"(3) The program executive officer for a program shall report with respect to such program directly, without intervening review or approval, to the senior procurement executive of the military department concerned designated pursuant to section 16(3) of the Office of Federal Procurement Policy Act (41 U.S.C 414(3)).

"(4) The program executive officer to whom a defense enter prise program manager reports shall evaluate the job perform ance of such manager on an annual basis. In conducting an evaluation under this paragraph, a program executive officer shall consider the extent to which the manager has achieved the objectives of the program for which the manager is responsible including quality, timeliness, and cost objectives.

PUBLIC LAW 99-661—NOV. 14, 1986   100 STAT. 3915

"(5) The manager of a defense enterprise program shall be authorized staff positions for a technical staff, including experts in business management, contracting, auditing, engineering, testing, and logistics.

"(d) APPLICABLE RULES AND REGULATIONS.—(1) Except as specified by the senior procurement executive of the military department concerned, a defense enterprise program shall not be subject to any regulation, policy, directive, or administrative rule or guideline relating to the acquisition activities of the Department of Defense other than the Federal Acquisition Regulation and the Department of Defense supplement to the Federal Acquisition Regulation.

"(2) Paragraph (1) shall not be construed to limit or modify the application of Federal legislation relating to the acquisition activities of the Department of Defense.

"(3) In this subsection the term 'Federal Acquisition Regulation' has the meaning given such term in section 2320(a)(4) of this title.".   10 USC 2320.

(2) The table of sections at the beginning of such chapter is amended by adding after the item relating to section 2435 (as added by section 904) the following new item:

"2436. Defense enterprise programs.".

(b) The Secretary of each military department shall designate for   10 USC 2436
fiscal year 1988 not less than three defense acquisition programs   note.
under the jurisdiction of the Secretary to participate in the program
described in section 2436(a) of title 10, United States Code (as added
by subsection (a)(1)).

SEC. 906. MILESTONE AUTHORIZATION OF DEFENSE ENTERPRISE
        PROGRAMS

(a) IN GENERAL.—(1) Chapter 144 of title 10, United States Code, is amended by adding after section 2436 (as inserted by section 905) the following new section:

"§ 2437. Defense enterprise programs: milestone authorization   10 USC 2437.

"(a) DESIGNATION OF PARTICIPATING PROGRAMS.—(1) The Secretary of Defense may designate defense enterprise programs in each military department (as designated by the Secretary of the military department under section 2436 of this title) to be considered for milestone authorization under subsection (b).

"(2) The Secretary may designate a defense enterprise program under paragraph (1) only if the program—
        "(A) is ready to proceed into the full-scale engineering development stage or the full-rate production stage, or
        "(B) is in either of such stages.

"(b) SUBMISSION OF BASELINE DESCRIPTIONS.—Not later than the end of the 90-day period beginning on the date that a defense enterprise program is designated under subsection (a), the Secretary of Defense shall—
        "(1) in the case of a program that is subject to section 2435(a)
    of this title, submit to the Committees on Armed Services of the   Ante, p. 3913.
    Senate and House of Representatives the baseline description
    for the program required to be submitted under such section;
        "(2) in the case of a program that is not subject to such
    section—
            "(A) establish a baseline description that meets the
        requirements of such section; and

"(B) submit the baseline description to such committees; and

"(3) request from Congress the authority to obligate funds in a single amount sufficient to carry out the stage for which the baseline description is submitted.

"(c) MILESTONE AUTHORIZATION.—Congress shall authorize funds for the full-scale engineering development stage or the full-rate production stage of a program designated by the Secretary of Defense under subsection (a) in a single amount sufficient to carry out that stage, but not for a period in excess of five years, if such program is approved by Congress to—

"(1) proceed into or complete the full-scale engineering development stage; or

"(2) proceed into or complete the full-rate production stage.

"(d) PROGRAM DEVIATIONS.—(1) If the Secretary of Defense receives a program deviation report under section 2435(b) of this title with respect to a defense enterprise program for which funds are authorized under subsection (b)—

Ante, p. 3913.

"(A) the Secretary of Defense shall notify the Committees on Armed Services of the Senate and House of Representatives of the receipt of such report before the end of the 15-day period beginning on the date on which the Secretary receives such report; and

"(B) except as provided in paragraph (2), after the end of the 45-day period beginning on the date on which the Secretary of Defense receives such report, the Secretary concerned may not obligate amounts appropriated or otherwise made available to the Department of Defense for purposes of carrying out the program.

"(2) Paragraph (1)(B) does not apply if the Secretary of Defense notifies Congress that the Secretary intends to—

"(A) convene a board to formally review the program; and

"(B) submit to Congress a revised baseline description for the program and the recommendations of the board convened under subparagraph (A) concurrent with the submission by the President of the budget for the next fiscal year under section 1105(a) of title 31.

"(3) The Secretary concerned may not obligate, for the purpose of carrying out a program described in paragraph (1) for which a program deviation report is received, amounts appropriated or otherwise made available to the Department of Defense for the fiscal year following the fiscal year during which the program deviation report was received unless such amounts are authorized to be appropriated after the date on which such report was received.".

(2) The table of sections at the beginning of such chapter is amended by adding after the item relating to section 2436 (as inserted by section 905) the following new item:

"2437. Defense enterprise programs: milestone authorization.".

10 USC 2437 note.

(b) INITIAL DESIGNATION OF PARTICIPATING PROGRAMS.—The Secretary of Defense shall designate for fiscal year 1988 not less than three defense enterprise programs to be considered for milestone authorization under subsection (b). The Secretary shall make such designations as part of the budget submission of the Department of Defense for such fiscal year.

THE UNDER SECRETARY OF

WASHINGTON, DC 20301

ACQUISITION

A&L(P&R)

5   JAN 1987

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
                ATTN: ACQUISITION EXECUTIVES

SUBJECT: OSD Guidance on Defense Enterprise Programs and
          Milestone Authorization

    The FY 1987 Authorization Act directs that at least three
defense enterprise programs per military department shall be
established for FY 1988. The intent of this concept of
enterprise programs is the reduction of inefficiencies due to
excessive acquisition regulations and a bulky management
structure. The military departments would manage selected
programs designated as enterprise programs through a
streamlined structure in which the program manager has direct
access to the highest levels of decision makers.

    In keeping with this trial streamlining, Congress also has
authorized the department to utilize the concept of milestone
authorization. Through this process, the Armed Services
Committees would review high priority programs prior to their
entering or during full-scale development (FSD) or full-rate
production (FRP) and Congress would authorize the necessary
funds in a single amount sufficient to carry the program
through FSD or FRP (up to 5 years). In order to qualify for
this approach, a baseline description must be submitted to the
Armed Services Committees for those programs designated for
milestone authorization.

    The Secretary of Defense is charged with overseeing and
providing guidance for the management of defense enterprise
programs and the designation of milestone authorization
candidates for submission to Congress along with the FY 1988
and subsequent budgets. The military departments are to
suggest candidate milestone authorization programs:

    • that are of the highest priority to the military
      department, OSD, and the Congress,
    • that have the full commitment of all three parties, and
    • that are relatively stable programs, facing, at most,
      limited technical risk.

    Candidates that do not meet all these criteria will not be
accepted by OSD.

    Each military department is requested to submit to the JRMB
Executive Secretary at least three candidates for the defense
enterprise program and recommend at least one of those programs
for milestone authorization by close of business on 15 January
1987.

Best Available Copy

THE SECRETARY OF DEFENSE

WASHINGTON THE DISTRICT OF COLUMBIA

30 MAR 1987

Honorable Les Aspin
Chairman
Committee on Armed Services
House of Representatives
Washington D.C.   20515

Dear Mr. Chairman:

In response to the Fiscal Year 1987 Authorization Act,
which created the Defense Enterprise Program, I am designating
the following defense acquisition programs for participation in
this new initiative:

ARMY	NAVY	AIR FORCE
1)Mobile Subscriber Equipment (MSE)	4)TRIDENT II Missile (D-5)	7)Medium Launch Vehicle (MLV)
2)Army Tactical Missile System (ATACMS)	5)SSN-21 Submarine	8)TITAN IV Space Booster
3)TOW II Missile	6)T-45 Training System	9)SRAM II Missile
		10)C-17 Aircraft

In conjunction with these designations, I request that
milestone authorization be approved for the completion of full-
scale development on the TRIDENT II missile program.   I
anticipate also requesting milestone authorization for the
production phase of this program after the Department completes
its Milestone IIIA review in March 1987.   The TRIDENT II system
is one of the Department's highest priority programs and will
provide much needed balance to the strategic triad.   Milestone
authorization is also requested for the production phase of two
other candidate programs: MSE and MLV.   The MSE program will
provide the Army with substantial improvements in the area of
combat support communications.   The MLV system is an important
part of the DoD Space Boosters program, designed primarily to
launch Global Positioning System satellites into orbit.
Complete baseline descriptions of these milestone authorization
candidates will be sent to your committee within 90 days.

The Department applauds this congressional initiative to
enhance program stability and believes that the programs
selected are appropriate systems for this unique management
approach.

An identical letter has been sent to the Chairman, Senate
Armed Services Committee.

Sincerely,

04244

William H. Taft, IV
Deputy Secretary of Defense

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THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301

ACQUISITION

A&L/P&R

2 7 APR 1987

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS

SUBJECT: Defense Enterprise Program and Milestone Authorization

The attached information establishes general policy guidelines for the management of defense enterprise programs and milestone authorization candidates. The following programs were submitted to the Congress by the Deputy Secretary of Defense on March 30, 1987 as enterprise programs for Fiscal Year 1988:

ARMY	NAVY	AIR FORCE
MSE	SSN-21	SRAM II
ATACMS	TRIDENT II(D-5)	MLV
TOW II	T-45TS	TITAN IV
		C-17

Milestone authorization has been requested for the following three programs: MSE (Production); TRIDENT II (FSD and Production); MLV (Production). In accordance with legislative requirements, please submit baselines for these milestone authorization candidates to the USD (A) (attn: DAB Executive Secretary) within 45 days of the date of this memorandum. In addition, it is requested that each Service Acquisition Executive (SAE) clearly identify which regulations, directives, guidelines, and policies will apply and will not apply to defense enterprise programs and provide an assessment of the organizational benefits derived from the regulatory relief provided enterprise programs. This information should accompany the above baseline submission.

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APPENDIX F

GUIDELINES FOR THE MANAGEMENT OF THE DEFENSE ENTERPRISE PROGRAM

Enterprise Programs

Pursuant to statutory requirements and Departmental policy, enterprise programs shall be managed in a streamlined manner (see 10 U.S.C, sec. 2436, enacted by sec. 905 of the FY 1987 Authorization Act). In addition, the legislation waives regulations, directives, guidelines, and policies relating to the acquisition activities of the Department of Defense (except for the FAR and statutory requirements), unless specified otherwise by the SAE. Accordingly, it is requested that each SAE identify which regulations, directives, guidelines, and policies will apply to defense enterprise programs and provide an assessment of the organizational benefits derived from the regulatory relief provided enterprise programs. In addition, it is requested that each SAE clearly identify which regulations will no longer apply. Although the legislation waives all regulations, it is imperative that deliberate decisions be made on the relative importance of each regulation. This information is required within 45 days of the date of the cover memorandum. Each SAE is advised that any acquisition program designated as an enterprise program that is subject to milestone reviews by the Defense Acquisition Board (DAB) shall continue to be subject to DAB reviews.

Milestone Authorization

All enterprise programs shall be reviewed by the Under Secretary of Defense for Acquisition (USD (A)) to determine their suitability for milestone authorization. An enterprise program may be considered for submission to Congress as a candidate for milestone authorization for full scale development or full rate production after it has been found by the DAB to be ready to proceed into either of those stages (or is already in either of these stages). An enterprise program may also be considered for a milestone authorization request before it has been approved by the DAB to proceed into the next milestone, provided a compelling case for such submission can be made to the USD (A), who must then approve it. Milestone authorization, if approved, normally applies to only one acquisition stage at a time.

A baseline description must be submitted to the House and Senate Armed Services Committees for any defense enterprise program that is a candidate for milestone authorization. This baseline must comply with congressional direction (see 10 U.S.C., sec. 2437, enacted by sec. 906 of the FY 1987 Authorization Act). Pursuant to statutory requirements, this baseline must be submitted to the Secretary of Defense, who is required to submit it to Congress within 90 days of the program's designation as a candidate for milestone authorization (i.e. 30 June 1987 for this year's submission). The Cost

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Analysis Improvement Group (CAIG) will be responsible for validating the cost information in the baseline. The other aspects of the baseline (i.e. schedule, performance and configuration) will be reviewed by the OSD staff. In order to meet the legislative requirement, it is requested that baseline descriptions for the three programs designated as milestone authorization candidates be submitted to the USD (A) (attn: DAB Executive Secretary) within 45 days of the date of this memorandum.

Once a baseline is approved, any deviations must be reported immediately by the Program Manager to the Service Acquisition Executive and Service Secretary. The Service Secretary must then convene a review panel and submit a report to the USD (A) within 45 days of the original deviation notification. The Secretary of Defense is then obliged to notify the House and Senate Armed Services Committees within 15 days. A formal review of the program must be held and a revised baseline submitted to the Congress. If this is not done, obligational authority for the program in question will be suspended.

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